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(Original Article)

Investigating the Impact of Ethical Ideology and the Threat of Self-Interest on Ethical Decision-Making of Auditors

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Abstract

Background: Ethical ideology as an individual factor and the threat of self-interest as an environmental factor can affect the ethical conduct of the individual. Therefore, the purpose of this study was to examine the impact of ethical ideology and the threat of self-interest on the ethical decision-making process of auditors.
Method: This is a quasi-experimental study. The statistical population includes auditors who working in the private sector audit firms and statistical sample include 186 members of the community. Data were collected through a questionnaire and analyzed using structural equation model.
Results: Findings show that idealist ethical ideology and the threat of self-interest have a direct and significant impact on the ethical decision-making process of auditors. But the relative ethical ideology has an indirect impact on the ethical decision-making process of auditors.
Conclusion: The results of this research show the impact of ethical ideology and the threat of self-interest in the ethical decision-making skills of auditors. Therefore, it is imperative that audit firms provide ethical training courses to inform auditors of ethical issues.

Keywords: Ideal ethical ideology, Relativistic ethical ideology, Threat of self-interest

Introduction

Recent financial and economic crises and the sudden collapse of large corporations have led to a greater focus on ethics and set up of severe instructions and rules about commitment to ethics (1). Despite of various rule, guideline and instruction, ethical financial scandals have been seen. Therefore, it is caused that ethical discussion be the important issue in academic researches.

Some of the studies determined that although more rules are needed for preventing of frauds and scandals but they are not enough and finally all related to the ethical commitment (2). Others believed that

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in current condition of business, ethical and strategic problems are mixed together and audits have to be able to recognize ethical problems (3). In this situation, mere aware from professional ethical guidelines is not effective, because detect of events in act needs to special ability (4). So, it is necessary that procedure of ethical decision making by audits be studied.

Process of ethical decision making is indeed the explanation of passing different stages to making a decision in different ethical situations. Rest (5) divides ethical decision-making process in four stages. The first condition is ethical sensitivity, or the ability to see things from the perspective of others. The second component of the four-component model is moral judgment. Moral judgment requires knowledge of concepts, codes of conduct, and ethical principles, and helps to identify the guidelines that support a decision. The third component of Rest's model is moral motivation, that is, the difference between knowing the right thing to do and making it a priority. The fourth component of Rest's model is moral character. This component requires audits to persist and have courage in implementing their skills.

Studies show that environmental, individual and subjective factors influence on ethical decision making of audits (6). Self-interest is the important environmental factor that effects on audit's cognition in ethical issues. This factor threats the independence of audits (7). Self-interest refers to financial contradictions that include direct and indirect financial interests in company, economic dependence of audit to employer, non-audit fees and interest to keep employer (8). Threatening personal interests have negative consequences on others and audit. In this study persists on individual consequences of threatening self-interest, since this is related to audit directly and has the most effects on audit's behavior (9). In this study, the employer of audit is used as an agent of threatening of self-interest.

Studies about importance of employer determine different results. Some of the studies (10, 11, 12) have stated negative effects of employer on quality of auditory and reporting financial reports. Others (13) found that audits did different ethical judgment when the importance of employer went up and down.

Another factor that is effective on ethical decision making is the individual factor of ethical ideology. Ethical ideology has two dimensions; perfectionism and relativism. According to this theory, perfectionists believed that ethical acts are the acts that do not harm others (14). While relativist believed that ethical judges are related to conditions like culture, place and date. Indeed, relativism refers to how ethical relations are neglected (15).

It is expected that perfectionists in compare with relativists will present better ethical judgment in face with ethical issues. Some of the studies (16,17) approve this finding. As perfectionists do not want to harm others, so they present less unethical judges (18, 19). Therefore, they are more sensitive to ethical issues and detect these issues better than others (20).

In other hand, relativists underestimate the ethical issues I compare with perfectionists. So, it is expected that they do not commit to ethical issues in situations. Some of the studies (21) determined the negative relationship between relativism and ethical decision making. Some of the studies (16, 22) showed that ethical ideology can affect on ethical decisions. In one study (23) it is reported that ethical dimension of perfectionism in managers has positive effects on quality of profit. Studies showed that ethics has positive effects on improvement of decision making and behavior of managers in private sectors. By reinforcement of ethics in each company, it is expected that they present more ethical behaviors and judges (24).

According to the stated literature, this study tries to use social cognition theory (25) to consider the direct effects of ethical ideology and self-interest threatening on the process of ethical decision making of audits.

Material and Methods

In terms of goal, this is an applied research and in terms of gathering data, it is a semi experimental research. Population of the study includes all formal and active auditory institutes in Tehran (N= 247).

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Based on the Morgan table, 186 subjects were selected as sample for the study.
Demographic characteristics are showed in table 1. 76.3 percent of participants are men and 23.7 percent of participants are women. 31.2 % of them have B.A degree, 46.8% have M.A degree and 22% have Ph.D. 87.6% of them were audits and 12.4% were in other related majors and so on.

Table 1: Demographic characteristics of respondents

Characteristics	index	N	Percentage
gender	Male	142	76.3
	female	44	23.7
Age	Under 36ys	61	32.8
	Between 36 and 45ys	77	44.4
	Up to 45ys	48	25.8
Academic degree	B.A	58	31.2
	M.A	87	46.8
	Ph.D.	41	22
Major	Accounting and Audit	163	87.6
	Other	23	12.4
Post	Associate	39	21
	Technical manager	47	25.3
	Senior supervisor	19	10.2
	Supervisor	50	26.9
	Senior auditor	31	16.6
Work experience	Under 11ys	52	28
	Between 11-20ys	79	42.5
	Up to 20ys	55	29.5

Forsith ethical situation questionnaire (22) is used for assessing ethical ideology. This questionnaire has 20 questions; 10 questions for assessing perfectionism and 10 questions for assessing relativism.
Threatening of self-interest is assessed by the importance of employer for auditors. When income of auditory institute from one employer is more than 25% of total income, this employer has high importance and it is assigned point 1 and when it is lower than 25%, it is pointed 0. 25 percent is determined by the stock exchange auditing and reporting affairs of Tehran. At first, employers divided into two groups of with and without importance.
Then, respondents have to respond to the scenario questions.
Ethical decision making was assessed by the questions in three scenarios. In each scenario, 4 questions were stated that evaluate ethical sensitive, ethical judgment, ethical behavior and ethical intention. Therefore, 12 questions were provided for assessing ethical decision making. Results of reliability of ethical questions are presented in table 2.

Table 2: characteristics of structure reliability based on three different methods

variable	No. questions	Chronbach's alpha	Combined Reliability	Convergence validity
Perfectionism	10	.946	.953	.665
Relativism	10	.893	.926	.703
Process of decision making	12	.837	.807	.660

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Data were analyzed by structured equation modeling and path analysis by using PLS software.

Results

In this part, hypothesis will be tested. In table 2, goodness of fit indexes (GFI) that included exact, approximate, internal and external indexes, show that exact index is between .25 and .36. Approximate index is up to .80 that supports the model. Also, the GFI was up to 1.96 that showed significant results.

Table 3: Structure validity indexes

Index	Obtained results	SEM	# of tails
Exact	.321	.033	11.453
Approximate	.815	.066	16.879
External model	.978	.038	29.111
Internal model	.809	.064	16.776

Content validity was assessed by gathering confirmation of 13 experts. Reliability of the tools was assessed by factorial indexes. Results are presented in table 4.

Table 4: Results of reliability based on factorial loading

Structure	Question	Factor loading	SE	Critical value
Perfectionist ethical ideology	EOI1	0.790	0.019	41.002
	EOI2	0.662	0.039	16.943
	EOI3	0.726	0.027	26.884
	EOI4	0.818	0.017	48.966
	EOI5	0.732	0.022	33.657
	EOI6	0.815	0.016	49.961
	EOI7	0.724	0.029	24.877
	EOI8	0.690	0.027	25.203
	EOI9	0.738	0.024	30.984
	EOI10	0.657	0.030	21.914
Relativist ethical ideology	EOR1	0.819	0.017	48.982
	EOR2	0.810	0.018	44.649
	EOR3	0.819	0.018	46.791
	EOR4	0.833	0.014	59.008
	EOR5	0.798	0.018	45.489
	EOR6	0.819	0.016	51.752
	EOR7	0.763	0.023	32.555
	EOR8	0.796	0.022	36.032
	EOR9	0.806	0.021	37.880
	EOR10	0.821	0.020	41.351
Process of decision making	MI1	0.838	0.014	61.750
	MI2	0.812	0.017	47.871
	MI3	0.820	0.015	56.097
	MI4	0.844	0.014	58.264
	MI5	0.708	0.026	27.395
	MI6	0.819	0.018	46.326
	MI7	0.805	0.026	31.361
	MI8	0.763	0.023	32.908
	MI9	0.753	0.031	24.032
	MI10	0.787	0.020	40.054
	MI11	0.761	0.021	35.988
	MI12	0.801	0.026	31.004

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Research hypothesis are tested by structural equation model (PLS) that briefly showed in table 5. Based on the presented results, impact factor of perfectionism on ethical decision making is .186 (p=4.88). Therefore, perfectionism has a positive effect on ethical decision making (α=.5). So, first hypothesis is accepted. Impact factor of relativism on ethical decision making is -.214 (p=7.586). Therefore, indirect effects of relativism on ethical decision making is significant (α=.5). So, second hypothesis is rejected. Impact factor of threat of self-interest on ethical decision making is .543 (p=9.18). Therefore, direct effect of threat of self-interest on ethical decision making is significant (α=.5). So, third hypothesis is accepted.

Table 5: Indexes of relationships between content model structures

Path structures		Results of impact factor			R2		Sig. factor	
Independent V.	Dependent V.	Impact factor	SE	P value	E.C	S.C	Sig.	α
Perfectionism	Process of decision making	.186	.045	4.88	.269	.031	.654	.379
Relativism		-.214	.031	7.58		.049	.598	
Threat of self-interest		.543	.040	9.18		.189	1.150	

Discussion

Results showed that ethical ideology of perfectionism has significant effect on ethical decisions. These results show that audits with perfection ideas are aware from ethical issues and therefore, they perceive the ethical problems in each condition. Overall, it can be said that audits with high perfection ideas are suitable for auditory. Obtained results approve the last results in this case (15, 16, 17). Also, ethical ideology of relativism has significant negative effects on the process of ethical decision making. Findings show that they judge based on the conditions and they are not serious in ethical problems (23). These results approve the last findings (15, 18).

Also, results show that threatening of self-interest has positive significant effects on ethical decision making of audits. They detect ethical issues based on their self- interest. In other word, negative effects of issues make the audits so sensitive to ethical problems. This is against the last findings (11, 20, 22). This study shows that judgment of audits is not affected by the importance of employer. In other side, results approve the findings of some last studies (12, 19). These researches approve the importance of employer on ethical judgment. A research (9) shows that ethical ideology of perfectionism and relativism influence on the process of ethical decision making. It is noted in another study (13) that the consequences of the importance of employer may have negative results for audits and auditory institute.

Conclusion

According to the results of this study, which indicate that threatening personal interests has a positive impact on auditors' ethical decision-making process, and that previous research has shown that the level of competition in the Iranian private audit market is high, these findings provide valuable information for audit firms and institutions. As such, this information provides auditors with an understanding of the requirements of independence, recognition of threats to independence, and considerations of appropriate behavioral responses and preventive measures for such threats. Therefore, audit firms are advised to ensure that their employees are evaluated in terms of the risk of independence in order to raise their awareness and to take any potential threats to their independence prior to the start of the audit. Auditors' awareness that their responsibilities go beyond the practice of professional behavior and in agree with

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public interest, it makes them take the threat of self-interest seriously.

Also, according to the results of this study it can be stated that individual characteristics can be effective in ethical decision making of individuals. Therefore, audit firms and their partners are recommended to be more sensitive to the recruitment of new auditors and to bring in auditors who are more idealistic in ethical orientation. Since, they are more sensitive and ethical in dealing with ethical issues. As they enter the auditing profession, the general interest of users of audit information is maintained in some way.

This study, like other surveys that collect data through questionnaires, has inherent limitations, such as the lack of sufficient motivation of some respondents to answer the questions or their bias towards desirable and unrealistic answers.

Ethical Consideration

Ethical issues (Including plagiarism, informed consent, misconduct, data fabrication and/or falsification, double publication and/or submission, redundancy, etc.) have been completely observed by the authors.

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