

EFFECTS OF PERSONAL VALUES ON ETHICAL JUDGMENTS IN AN AUDITOR-CLIENT CONFLICT SCENARIO: THE CASE OF KENYA

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Abstract

This study examines the effects of personal values on ethical judgments of auditors in Kenya in relation to an auditor-client conflict scenario. It utilizes Schwartz's (1992) personal value theory and measures ethical judgments by using both single-items and the Multidimensional Ethics Measure developed by Reidenbach and Robin (1988, 1990). The results show some significant differences in the ethical judgments of auditors in Kenya when exposed to an auditor-client conflict scenario. Specifically, auditors who rank high on values such as universalism are likely to not resolve auditor-client conflicts by acceding to clients' wishes because they perceive such behavior as unethical. In addition, auditors who rank low on power also perceive such behavior as unethical. As such, the results provide support for a relationship between specific values and ethical judgments in the context of auditor-client conflict scenarios.

Keywords: Kenya, Personal Values, Ethical Judgments, Auditor-Client Conflicts

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1 Introduction

It is commonly acknowledged that a report made by an independent auditor is an important feature of good corporate governance because it may provide some assurance to external users of financial statements that it is valid, reliable and complete (Bazerman et al., 1997; Joshi et al., 2009). However, audit conflicts on issues, such as the need to make adjustments to the financial statements, the propriety of a client's accounting policies and the adequacy of individual disclosures, may occur between auditors and their clients and need to be resolved through negotiation (Joshi et al., 2009; Wang and Tuttle, 2009; Knapp 1985).

Chen et al. (2005) and Joshi et al. (2009) describe the negotiation process as a power struggle in which the client is often in a more powerful position to influence the outcome of the negotiation than the audit firm. In such a process, the independence of the auditor is important and is described as a necessary condition to professionalism, integrity and objectivity (Bazerman et al., 1997; Patel et al., 2002). Indeed, auditor independence has been identified as an important issue in the effective implementation of the Code of Ethics for Professional Accountants issued by issued by the International Federation of Accountants (IFAC) (Patel et al., 2002).

The literature suggests several variables that may influence the decision of an auditor to accept a client's position or resist pressure in auditor-client conflict

scenarios, such as the nature and materiality of the items under dispute (Knapp, 1985; Wright and Wright, 1997), the likelihood of litigation (Farmer et al., 1987), the size of the audit firm and audit fees (DeAngelo, 1981; Gul and Tsui; 1992, Lindsay, 1989), the provision of management services (Knapp, 1985), and the auditor's level of moral reasoning (Tsui and Gul, 1996; Wang and Tuttle, 2009).

Jones (1991) suggests that the likelihood of individuals engaging in unethical behavior may also depend on their personal values because they may affect moral reasoning by providing the basis for the development of attitudes. Personal values can be defined as "concepts or beliefs about desirable end states or behaviours that transcend specific situation, guide selection or evaluation of behaviour and events, and are ordered by relative importance" (Schwartz and Bilsky, 1987, p. 551). This paper examines the effects of personal values on ethical judgments in auditor-client conflict scenarios using Kenya as a case study. This is important because the influence of personal values on judgments is context dependent (Schwartz, 2012; Schwartz and Boehnke, 2004). Specifically, Schwartz's (1992) personal value theory (PVT) is used to examine the impact of five personal values, namely universalism, power, conformity, security and self-direction, on ethical judgments of auditors in Kenya in auditor-client conflict scenarios. Auditors in Kenya have been selected because its environment for audit services provides incentives for the likelihood of auditors to resolve auditor-client

conflicts by acceding to clients' wishes. Kenya has developed a wealth of experience in the use of international accounting and auditing standards as it was among the first countries to adopt International Accounting Standards in 1999. However, the corruption perception index of Kenya is 27 out of 100 with 0 being highly corrupt, and the country is ranked 139 out of 176 (0 being most corrupt) countries in regard to corruption (Transparency International, 2012). Finally, although a professional code of ethics for professional accountants has been in force in Kenya for several years, there is no mechanism to ensure that ethical standards are observed (United Nations Conference on Trade and Development, 2010).

The remainder of the paper is organized as follows. Section 2 reports prior studies and hypothesis development. Section 3 briefly discusses the research method. Section 4 reports data analysis and results. The conclusion is reported in section 5.

2 Literature Review and Hypothesis Development

2.1 Auditor-client Conflict Resolutions

Previous studies examining auditor-client conflict resolutions provide evidence that auditors may collude with the client and thereby agree to waive a financial statement adjustment they perceive to be necessary (Knapp, 1985; Chen et al., 2005).

The literature provides evidence that several factors may affect the ability of auditors to resist client pressure, including the nature of the conflict issue, the client's financial condition, the provision of management advisory services and the degree of competition in the audit service market (Knapp, 1985). Similarly, Farmer et al. (1987) suggest that the risk of losing a client may influence auditors to accept the client's position in a dispute, especially in an environment of high competition. Lindsay (1989) finds that the auditor is likely to resolve the conflict in favor of the client when the size of the audit firm is small.

However, there is also evidence to suggest that other factors may influence auditors to resist pressure from clients in a conflict situation. For example, Farmer et al. (1987) find that a threat of litigation may influence the auditor opposing a client's proposed accounting treatment. The nature and materiality of

items under dispute may also influence the outcome of the conflict. For example, Knapp (1985) finds that clients are less likely to obtain their preferred resolution to a conflict when the conflict issue is resolved with precise technical standards. Additionally, Craswell (1988) finds that auditors are less likely to compromise when the issue is a serious one such as a going concern qualification.

Theoretical models of ethical decision making (e.g., Ferrell and Gresham, 1985; Fritzsche, 1991; Hunt and Vitell, 2006) suggest that personal values provide the bases for ethical judgment. However, there are only a few studies on personal values in the context of ethical judgments in accounting. For example, Doughlas et al. (2001) examine the relationship between organizational culture, personal values and ethical judgments of 368 auditors working in large international accounting firms. The results indicate that auditors' ethical judgments are influenced by personal values in situations of high moral intensity. Karacaer et al. (2009) investigate the effects of personal values on auditor's ethical decision making in two countries, namely, Pakistan and Turkey. The study measured practicing auditors' personal value preferences and reactions to an ethical dilemma involving client pressure to aggressive financial reporting. The results indicate significant differences in the results of personal values of auditors in those two countries and the influence they had on ethical judgments.

2.2 Personal Values

This paper adopts Schwartz's (1992) PVT because it has been widely used in studies examining personal values in different cultures (e.g., Schwartz and Boehnke, 2004; Verkasalo et al., 2009). Importantly, this theory has been validated in more than 60 countries.

PVT identifies 56 personal values which Schwartz (1992) clustered into 10 personal value types as outlined in Table 1. These values are based on three universal requirements of human existence (i.e., biological needs, interpersonal coordination and survival and welfare of groups).

This paper uses five value types, namely, universalism, power, conformity, security and self-direction, which are assumed to be important in resolving auditor-client conflicts.

Table 1. Values and their definitions

| Value type | Definition | Values |
|-----------------------|---|---|
| Achievement | Personal success through demonstrating competence according to social standards | Success Capability Ambition Influence |
| Benevolence | Preservation and enhancement of welfare of people with whom one is in frequent personal contact | Helpful Honesty Forgiveness Loyalty Responsibility |
| Conformity | Restraint of actions, inclinations and impulses which are likely to upset or harm others and violate social expectations or norms | Politeness Obedience Self-discipline Honoring parents and elders |
| Hedonism | Pleasure and sensuous gratification for oneself | Pleasure Enjoyment of life |
| Power | Social status and prestige, preserving one's public image, control or dominance over people and resources | Social power Authority Wealth |
| Security | Safety, harmony and stability of society, of relationships, and of self | Family Security National Security Social order Cleanliness Reciprocation of favors |
| Self-direction | Independent thought and action-choosing, creating, exploring | Creativity Self-respect Freedom Independence Curiosity Choosing Own Goals |
| Stimulation | Excitement, novelty and challenge of life | Daring Varied life Exciting life |
| Tradition | Respect, commitment, and acceptance of the customs and ideas that traditional culture or religion impose of the self | Humility Accepting my part of life Devoutness Respect for Tradition Moderate |
| Universalism | Understanding, appreciation, tolerance and protection for the welfare of all people and for nature | Broadminded Wise Social Justice Equality A world at peace A world of beauty Unity with nature Protecting the environment |

Note: Table 1 includes only those values found to be stable between genders and across countries. The values not included are: A spiritual life, Detachment, Healthy, Inner harmony, Intelligence, Mature love, Meaning in Life, Preserving My Public Image, Sense of belonging, Social Recognition and True friendship.

2.2.1 Universalism

The underlying motivational goal of *universalism* is understanding, appreciation, tolerance and protection for the welfare of all people (Schwartz, 1992). It has been selected because it emphasizes empathy. Researchers in moral psychology such as Deigh (1995) argue that empathy is a moral emotion that

helps individuals to overcome self-interest or egoism. This is reflected in the Code of Ethics for Professional Accountants which requires auditors to show concern for external users who rely on financial information to make economic decisions. Accordingly, concern for others is a key underpinning of moral reasoning in auditing (Glover et al., 1997).

In auditor-client conflict scenarios, auditors are required to make decisions on how to resolve the financial reporting issues under dispute. They may resolve conflicts by accepting or refusing a client's position. Auditors who value *universalism* may embrace concern for others' welfare and may insist on telling the truth about a client's financial statements to avoid harming potential users of financial statements.

Thus, even though the client may be regarded as the more powerful party in the negotiation process, an auditor who attaches importance to *universalism* is likely to resist the client's pressure over financial reporting issues. Hence, the following hypothesis is tested:

H1: Auditors who rate high on universalism are less accepting of resolving audit conflicts by acceding to clients' wishes compared to auditors who rate low on universalism.

2.2.2 Power

Power is a value pertaining to control and dominance over people and resources and motivates people to enhance their own personal interest even at the expense of others (Schwartz 1992). It opposes *universalism*. As such, the more importance an individual attaches to *power*, the more likely he/she is to safeguard his/her own interest and well-being rather than taking into account the welfare of others (Schwartz, 1992; Schwartz and Boehnke, 2004).

Power has been selected for examination because auditors who attach importance to it may strive to accumulate wealth and resources during the negotiation process and may be more concerned about retaining the client due to fear of loss of income. In addition, Lan et al. (2009) find that *power* has a negative relationship with the highest level of moral reasoning because it is related to the personal interest level and motivated by achieving and sustaining self-enhancement. Thus, the following hypothesis is tested:

H2: Auditors who rate high on power are more accepting of resolving audit conflicts by acceding to clients' wishes compared to auditors who rate low on power.

2.2.3 Conformity

The motivational goal for *conformity* is restraint of actions, inclinations, and impulses that are likely to upset or harm others and violate social expectations or norms (Schwartz, 1992). This may refer to the propensity of auditors to comply with rules and regulations set by organizations and regulatory bodies such as the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. As such, auditors who rank high on conformity values are likely to conform to the requirements of the International Federation of Accountants (IFAC) and may resist

client pressure. However, auditors who rank low on conformity values are likely to be involved in unethical practices involving breaking rules and regulations as set up by regulatory bodies and violating expectations and norms. As such, they are more likely to resolve audit conflict by acceding to clients' wishes even if it violates the expectation that auditors should be independent of their clients. Hence, the following hypothesis is tested:

H3: Auditors who rate high on conformity are less likely to resolve audit conflicts by acceding to clients' wishes compared to auditors who rate low on conformity.

2.2.4 Security

The motivational goal of *security* includes the desire for safety, harmony and stability of society (Schwartz, 1992). It is derived from a perceived need to protect a person or society (Schwartz et al., 2012). Security values are in line with power values. In auditor-client conflict resolution, the motivational goal of security includes the desire for stability, certainty and integrity in the auditing profession. As such, auditors who rank high in security values would place more importance on behaving with integrity, objectivity and acting in the public interest. They would uphold the ethical standards of the auditing profession so as to build trust in the profession and improve public confidence in audited financial statements. Thus, they will be less accommodating to the needs of the client which may steer them away from integrity and objectivity. Consequently, they are less likely to resolve auditor-client conflicts by acceding to clients' wishes. However, auditors who rank low on security values may lack the motivation to maintain the credibility of the auditing profession to the public. They may not stand for the integrity of the profession and may sacrifice audit quality for economic benefits from the client. As such they are likely to resolve auditor-client conflicts by acceding to clients' wishes. Hence, the following hypothesis is tested:

H4: Auditors who rate high on security are less likely to resolve audit conflicts by acceding to clients' wishes compared to auditors who rate low on security

2.2.5 Self-direction

Self-direction values are regularly found to be important values across cultures (Schwartz and Bardi, 2001). According to Schwartz and Boehnke (2004), self-direction values are likely to conflict with maintaining conformity values. The motivation goals underlying self-direction include independent thought and actions (Schwartz, 1992). This value refers to reliance on and gratification from one's independent capacities for decision-making and action (Schwartz et al., 2012). Self-direction values in auditor-client conflict resolution can refer to the desire of auditors to exercise their professional judgments in resolving

audit conflict without being pressured by the client to accede to their demands. Thus, accountants who rank high on self-direction values are expected to be motivated to be independent of their clients and such may avoid situations, actions or relationships that are likely to affect their ability to withstand pressure from their clients. Therefore, as they are independent of the clients, they can resist clients' pressure and resolve audit conflict without acceding to client's demands. However, auditors who rank low on self-direction values may impair their independence with the client which may affect their ability to withstand clients' pressure. When an auditor's independence is impaired, he or she is more likely to resolve audit-conflicts by acceding to clients' wishes. Hence the following hypothesis:

H5: Auditors who rank high on self-direction values are less likely to resolve audit conflicts by acceding to clients' wishes compared to auditors who rank low on self-direction values.

3 Research Methodology

3.1 Sample Selection and Research Design

To test the hypotheses, Kenyan auditors were selected who had attained the necessary CPA qualification and were working in audit firms in Nairobi, which is the commercial and capital city of Kenya where most auditing firms are concentrated. Thus, sampling in Nairobi city would help to achieve a representative sample of the target population. To determine the samples, probability sampling techniques were used as they give every member of the population an equal probability or chance of being selected (Zikmund, 2000). To achieve this, a list of auditing firms in Nairobi (approximately 700 audit firms) was obtained from the Kenyan accountants' business directory. Contacts were made by mail with senior partners from the firms selected. Survey questionnaires were randomly distributed by partners to the participants. One-hundred firms were randomly selected so as to ensure that all audit firms in Nairobi had a chance of being selected.

Five hundred and sixty questionnaires were distributed among the 100 (approximately 14%) audit firms randomly selected depending on the number of auditors in the firm. The questionnaire comprised three sections: Section A collected demographic information of the respondents, Section B consisted of an auditor-client conflict scenario and Section C consisted of questions regarding personal values.

The audit scenario was based on Knapp (1985), Patel et al. (2002) and Patel and Millanta (2011). See the Appendix for more details. However, the name of the company in this case was changed to reflect a typical name in Kenya. The scenario described a conflict which had arisen between the auditor-in-charge and the management over the materiality of certain unrecorded liabilities discovered during the

audit. The management argued that the total amount of unrecorded liabilities was immaterial, therefore making it unnecessary to include adjusting entries in the financial statements. However, the auditor-in-charge felt that the amount was material and the financial statements should be adjusted accordingly. The auditor-in-charge eventually resolved the conflict by deciding that the unrecorded liabilities would be ignored for the purposes of financial statements as well as in the auditor's report.

The nine scenario questions included one single question item and eight items in the Multidimensional Ethics Measure (MEM) developed by Reidenbach and Robin (1988, 1990). The single-item question asked participants to evaluate the actions of the auditor on a 7-point scale ranging from 1 = ethical/ fair/ just to 7 = unethical/unfair/ unjust.

The MEM items comprise 7-point scales ranging from fair to unfair; just to unjust; morally right to not morally right; acceptable to unacceptable, culturally acceptable to culturally unacceptable, traditionally acceptable to traditionally unacceptable, violates an unwritten contract to does not violate an unwritten contract and violates an unspoken promise to does not violate an unspoken promise. MEM has been selected in this study because it provides a reliable and valid measure for evaluating the perceptions of the ethical content of business activities (Heinz, et al., 2013). Additionally, previous studies have validated this measure in accounting (e.g., Patel et al., 2002, Patel, 2003)

To examine personal values, the 56-item Schwartz Value Survey was utilized. The Schwartz (1992) value survey instrument was selected for this study for the following two reasons: first, this measure has been used in a number of recent studies of personal values in accounting (Lan, et al., 2009). For example, Lan et al. (2009) adopts the Schwartz Value Survey to compare personal values of Chinese accounting practitioners and students. Furthermore, Shafer et al. (2001) suggests that the Schwartz (1992) value survey instrument can be used to investigate the roles of personal values in an auditing context. Secondly, the instrument is designed to operate as a culturally unbiased assessment of values and it has been standardized to many countries around the world including Africa (Schwartz and Boehnke, 2004; Verkasalo et al., 2009).

Five personal values, namely universalism, power, conformity, security and self-direction are used in this study because those values have been found to be stable between genders and across countries in prior studies. To measure personal values, the instructions and scoring procedure developed by Schwartz and Sagiv (1995) were used. Each value was rated on a 9-point importance scale, ranging from (-1) 'opposed to my value', to (0) 'not important', to (3) 'important', to (6) 'very important' to (7) 'supreme importance'. Participants rating the values between (3) and (7) are categorized as having a high value

rating. Participants rating the values between (-1) and (2) are categorized as having a low value rating.

4 Data Analysis

4.1 Preliminary analysis

Raw data were coded, edited and a preliminary analysis was done to assess multivariate assumptions. All questionnaires were checked to ensure usability and completeness. Of the 560 survey questionnaires distributed, 124 (22.1%) were completed and returned. Eighteen of the returned questionnaires had missing information and were deleted from the sample. The remaining 106 questionnaires were used in this study.

4.2 Demographic profile of participants

A demographic profile of the participants is provided in Table I. It indicates that there is no predominant gender in the sample, male (51%), female (49%). Most participants were aged between 25 and 45 years (82.1%) and were lower rank employees (50.9%), such as audit assistants and trainees. Most of the participants had completed an undergraduate degree (83%), were employed by local audit firms (77%) and were not members of The Institute of Certified Public Accountants of Kenya (ICPAK) (67%). Eighty percent of participants were familiar with international auditing standards and the international Code of Ethics for Professional Accountants.

Table 1. Descriptive statistics for demographic information

| Demographic variable | Total | Percentage |
|--|------------|------------|
| Gender | | |
| Male | 54 | 51.0 |
| Female | 52 | 49.0 |
| Age | | |
| 25-35 | 42 | 39.6 |
| 36-45 | 45 | 42.5 |
| 46-55 | 16 | 15.1 |
| Over 55 | 3 | 2.8 |
| Education Level | | |
| College | 18 | 17 |
| Undergraduate | 54 | 50.9 |
| Postgraduate | 34 | 32.1 |
| Firm type | | |
| International | 29 | 27.4 |
| Local | 77 | 72.6 |
| Rank | | |
| Partner | 10 | 9.4 |
| Manager | 17 | 16.1 |
| Supervisor | 25 | 23.6 |
| Other | 54 | 50.9 |
| Membership with ICPAK | | |
| Members | 35 | 33.0 |
| Non-Members | 71 | 67.0 |
| Familiarity with IAS and the code | | |
| Very Familiar | 22 | 20.8 |
| Familiar | 80 | 75.5 |
| Somehow familiar | 3 | 2.8 |
| Unfamiliar | 1 | 0.9 |
| Total | 106 | 100 |

4.3 Personal Values

The highest ranked value by auditors was universalism with the highest mean of 5.30. This indicates that most auditors were more concerned about the welfare of others. Being concerned about the welfare of others is important in the auditing profession because it means the auditor will act in the public interest. Most auditors (n=68) ranked the power value as high with a mean score of 5.20. Power

value relates to accumulation of wealth and social power. There are a great many opportunities for business activities as Kenya develops into a major economic power in East Africa. In such an environment, auditors also have huge motivation to take the opportunity to become rich through business activities. Conformity in auditing may refer to the ability to comply with the rules and regulations set up by organizations and regulatory authorities. Low ranking conformity values for an auditor may indicate

a preference for him or her to be allowed to exercise professional judgments rather than adhere to strict rules and regulations. This is a good indication for international standard setters because principle-based standards that exercise professional judgments are adopted.

Cronbach's alpha reliability coefficients for power, security, conformity and universalism are 0.77, 0.73, 0.81 and 0.84, respectively, which exceeds

the 0.7 criterion level suggested by Nunnally (1978). However, for self-direction the coefficient is 0.64, which is slightly below 0.7. Low Cronbach's alphas have been found in previous studies in accounting such as in Chanchani and Willett (2004) and De Albuquerque et al. (2011). Although they found low Cronbach's alphas of 0.493 and 0.495 for some of the variables in their studies it did not stop their studies.

Table 2. Descriptive statistics- Personal values (Total n=106)

| Personal value | Means | Standard deviation | Cronbach's alpha |
|----------------------------|-------|--------------------|------------------|
| Power High (n=68) | 5.20 | 1.16 | 0.77 |
| Power Low (n=38) | 2.17 | 0.80 | |
| Security High (n=52) | 5.19 | 0.80 | 0.73 |
| Security Low (n=54) | 2.18 | 0.52 | |
| Conformity High (n=55) | 4.23 | 0.75 | 0.81 |
| Conformity Low (n= 51) | 1.63 | 0.57 | |
| Self-direction High (n=57) | 5.16 | 2.17 | 0.64 |
| Self-direction Low (n=49) | 2.97 | 0.80 | |
| Universalism High (n=63) | 5.30 | 0.81 | 0.84 |
| Universalism Low (n=43) | 2.60 | 0.51 | |

Notes: Scales (1) opposed to my value to (7) very important.

4.4 Personal values and auditor's ethical judgments

The descriptive statistics for the nine items in the scenario questions (which are treated as dependent variables) and personal values (independent variables) are provided in Table 3. For each of the nine dependent variables, the table shows the mean score

for those auditors who ranked personal values as high and for those who ranked personal values in the low range between 5 and 6. Indeed, the most frequent score for both categories is 5. This indicates that similar judgments were made by those who ranked the values high and those who ranked the values low.

Table 3. Descriptive statistics for Personal Values, Single item and MEM items (Total N=106)

| Personal value | Items | Means and SD | | | |
|-------------------------------|-----------------------------|--------------|--------|-----|--------|
| | | High | | Low | |
| Power High (n=68), Low (n=38) | Ethical (Single item) | 5.8 | (0.96) | 5.6 | (1.40) |
| | MEM (8 items) | | | | |
| | Fair | 5.5 | (0.99) | 5.3 | (1.43) |
| | Just | 5.7 | (1.11) | 5.5 | (1.53) |
| | Morally right | 5.9 | (1.17) | 5.6 | (1.30) |
| | Acceptable to family | 5.9 | (1.20) | 5.6 | (1.34) |
| | Culturally acceptable | 5.8 | (1.40) | 5.3 | (1.55) |
| | Traditional acceptable | 5.6 | (1.60) | 5.1 | (1.61) |
| | Violates unwritten contract | 5.6 | (1.33) | 5.1 | (1.52) |
| | Violates unspoken contract | 5.6 | (1.20) | 5.2 | (1.50) |

| Personal value | Items | Means and SD | | |
|--|-------|--------------|-----|--------|
| | | High | Low | |
| Security High (n=52), Low (n=54) | | | | |
| Ethical (Single item) | 5.8 | (0.96) | 5.7 | (1.42) |
| MEM (8 items) | | | | |
| Fair | 5.7 | (1.18) | 5.3 | (1.45) |
| Just | 5.9 | (1.06) | 5.4 | (1.55) |
| Morally right | 6.0 | (1.10) | 5.5 | (1.30) |
| Acceptable to family | 5.9 | (1.11) | 5.5 | (1.40) |
| Culturally acceptable | 5.8 | (1.47) | 5.4 | (1.50) |
| Traditional acceptable | 5.6 | (1.59) | 5.2 | (1.63) |
| Violates unwritten contract | 5.6 | (1.27) | 5.1 | (1.56) |
| Violates unspoken contract | 5.7 | (1.21) | 5.1 | (1.54) |
| Conformity High (n=55), Low (n=51) | | | | |
| Ethical (Single item) | 5.9 | (0.91) | 5.6 | (1.40) |
| MEM (8 items) | | | | |
| Fair | 5.8 | (0.83) | 5.3 | (1.42) |
| Just | 5.6 | (1.30) | 5.6 | (1.42) |
| Morally right | 5.8 | (1.08) | 5.7 | (1.40) |
| Acceptable to family | 5.9 | (1.14) | 5.6 | (1.40) |
| Culturally acceptable | 5.9 | (1.27) | 5.3 | (1.60) |
| Traditional acceptable | 5.7 | (1.51) | 5.2 | (1.66) |
| Violates unwritten contract | 5.6 | (1.22) | 5.1 | (1.55) |
| Violates unspoken contract | 5.8 | (1.03) | 5.1 | (1.53) |
| Self-direction High (n=57), Low (n=49) | | | | |
| Ethical (Single item) | 5.8 | (1.00) | 5.7 | (1.40) |
| MEM (8 items) | | | | |
| Fair | 5.6 | (0.98) | 5.4 | (1.41) |
| Just | 5.8 | (1.13) | 5.4 | (1.50) |
| Morally right | 6.0 | (1.16) | 5.6 | (1.28) |
| Acceptable to family | 6.0 | (1.22) | 5.5 | (1.28) |
| Culturally acceptable | 5.8 | (1.32) | 5.2 | (1.58) |
| Traditional acceptable | 5.9 | (1.22) | 5.0 | (1.80) |
| Violates unwritten contract | 5.7 | (1.30) | 5.1 | (1.62) |
| Violates unspoken contract | 5.7 | (0.97) | 5.1 | (1.63) |
| Universalism High (n=63), Low (n=43) | | | | |
| Ethical (Single item) | 5.9 | (1.10) | 5.7 | (1.30) |
| MEM (8 items) | | | | |
| Fair | 5.7 | (1.30) | 5.2 | (1.32) |
| Just | 5.7 | (1.14) | 5.5 | (1.45) |
| Morally right | 6.0 | (1.22) | 5.6 | (1.25) |
| Acceptable to family | 5.9 | (1.28) | 5.6 | (1.28) |
| Culturally acceptable | 5.7 | (1.60) | 5.4 | (1.41) |
| Traditional acceptable | 5.7 | (1.70) | 5.1 | (1.50) |
| Violates unwritten contract | 5.7 | (1.25) | 5.1 | (1.54) |
| Violates unspoken contract | 5.6 | (1.34) | 5.0 | (1.41) |

Note: SD means standard deviation; scale from 1 to 7 (where 1 refers to ethical/ fair/ just and 7 to unethical/ unfair/ unjust).

4.5 Results

The results indicate that personal values of universalism and power support hypothesis 1. For universalism, three out of eight items of the MEM indicate significant differences between those who rated universalism high and those who rated it low.

Fair ($F = 4.790, P < 0.03$), culturally acceptable ($F = 3.900, P < 0.05$) and violates unspoken contract ($F = 4.035, P < 0.05$), provide support that auditors who ranked universalism high are less likely to resolve audit conflicts by acceding to clients' wishes (hypothesis 1).

Results for the personal value of power also indicate partial support for the hypothesis that auditors who rank power high are likely to resolve audit conflicts by acceding to clients' wishes (hypothesis 2). Four out of the eight items of the MEM reveal significant differences between auditors who rated power values high and those who rated them low. Thus, morally right ($F = 4.727, P < 0.03$), traditionally acceptable ($F = 4.769, P < 0.03$), violates an unwritten contract ($F = 5.197, P < 0.03$) and violates unspoken contract ($F = 7.410, P < 0.01$), confirm the hypothesis that auditors with high power values are likely to resolve audit conflicts by acceding to clients' wishes. However, the results of the other four items of the MEM and single-item do not support the hypothesis that auditors who ranked power values high are likely to resolve audit-conflicts by acceding to clients' wishes. Future research may investigate reasons for this result.

It was hypothesized that there is significant difference between ethical judgments of auditors who ranked personal values high and those who ranked them low. The overall MANOVA results (as shown in Table 4) indicate that there was no significant difference between auditors who rated high or low

personal values for both the single item question and the eight MEM items for personal values of conformity, self-direction and security. Thus, these results provide no support for hypothesis 3 (i.e., Auditors who have high conformity values are less likely to resolve audit conflicts by acceding to clients' wishes compared to auditors who have low conformity values). A possible reason for this result is that conformity is only important if rules are to be upheld. Therefore, this result may mean that auditors in Kenya do not consider rules as important.

There was no support found for hypothesis 4: (i.e., Auditors who have high security values are less likely to resolve audit conflicts by acceding to clients' wishes compared to auditors who have low security values).

Similarly, no support was found for hypothesis 5 (i.e., that auditors who ranked self-direction values as high are less likely to resolve audit conflicts by acceding to clients compared to auditors who ranked self-direction values as low. This result indicates that auditors in Kenya put less emphasis on openness to change. However, our result is consistent with prior studies because self-direction values are likely to conflict with keeping conformity values.

Table 4. MANOVA for participant's judgments on the single-item and MEM items

| Value type | Single and MEM items | Predicted direction | F value | P value |
|-------------------|--------------------------------|---------------------|---------|---------|
| Power | Ethical (Single item) | No | 1.660 | 0.20 |
| | MEM items | | | |
| | Fair | No | 0.652 | 0.42 |
| | Just | No | 1.229 | 0.27 |
| | Morally right | Yes | 4.727 | 0.03* |
| | Acceptable to my family | No | 1.455 | 0.23 |
| | Culturally acceptable | No | 2.018 | 0.16 |
| | Traditionally acceptable | Yes | 4.769 | 0.03* |
| | Violates an unwritten contract | Yes | 5.197 | 0.03* |
| | Violates an unspoken promise | Yes | 7.410 | 0.01* |
| Security | Ethical (Single item) | No | 0.672 | 0.41 |
| | MEM items | No | | |
| | Fair | No | 1.431 | 0.24 |
| | Just | No | 0.731 | 0.40 |
| | Morally right | No | 1.146 | 0.29 |
| | Acceptable to my family | No | 0.020 | 0.89 |
| | Culturally acceptable | No | 0.036 | 0.85 |
| | Traditionally acceptable | No | 1.968 | 0.64 |
| | Violates an unwritten contract | No | 0.320 | 0.57 |
| | Violates an unspoken promise | No | 0.116 | 0.73 |
| Conformity | Ethical (Single item) | No | 0.877 | 0.35 |
| | MEM items | | | |
| | Fair | No | 0.576 | 0.45 |
| | Just | No | 0.015 | 0.90 |
| | Morally right | No | 0.484 | 0.49 |

| Value type | Single and MEM items | Predicted direction | F value | P value |
|-----------------------|--------------------------------|---------------------|---------|---------|
| | Acceptable to my family | No | 0.366 | 0.55 |
| | Culturally acceptable | No | 0.005 | 0.94 |
| | Traditionally acceptable | No | 0.354 | 0.55 |
| | Violates an unwritten contract | No | 0.641 | 0.43 |
| | Violates an unspoken promise | No | 0.320 | 0.57 |
| Self-direction | Ethical (Single item) | No | 0.000 | 0.99 |
| | MEM items | | | |
| | Fair | No | 0.011 | 0.92 |
| | Just | No | 0.018 | 0.89 |
| | Morally right | No | 0.086 | 0.77 |
| | Acceptable to my family | No | 0.483 | 0.48 |
| | Culturally acceptable | No | 1.006 | 0.31 |
| | Traditionally acceptable | No | 1.457 | 0.23 |
| | Violates an unwritten contract | No | 0.056 | 0.81 |
| | Violates an unspoken promise | No | 0.199 | 0.67 |
| Universalism | Ethical (Single item) | No | 7.417 | 0.08 |
| | MEM items | | | |
| | Fair | Yes | 4.790 | 0.03* |
| | Just | No | 3.515 | 0.06 |
| | Morally right | No | 1.741 | 0.19 |
| | Acceptable to my family | No | 1.984 | 0.16 |
| | Culturally acceptable | Yes | 3.900 | 0.05* |
| | Traditionally acceptable | No | 1.331 | 0.25 |
| | Violates an unwritten contract | No | 0.804 | 0.37 |
| | Violates an unspoken promise | Yes | 4.035 | 0.05* |

Note: * significant at $P < 0.05$

5 Conclusions

This study examines the relationship between personal values and the ethical judgments of practicing auditors. The findings have implications in both auditing research and practice and suggest that some personal values as measured by Schwartz (1992) do influence ethical judgments of professional auditors in Kenya in relation to audit-client conflict resolutions. This finding is consistent with that of Shafer et al. (2001) and Karacaer et al. (2009), who also find some support for the effects of personal values on auditors' ethical decision-making.

The lack of significance of personal values is that contextual variables such as the adoption of the international Code of Ethics for Professional Accountants and international auditing standards may take precedence over the effects of personal values on ethical judgments. Furthermore, models of ethical decision-making (e.g., Hunt and Vitell, 2006) usually recognize that contextual factors, such as professional norms, have a major impact on behavior in business contexts. The international auditing standards and the code of ethics have the effect of standardizing the

behaviors of auditors. Indeed, it is observed in this paper that for most personal values ranked as either low or high, auditors considered it unethical to resolve audit-conflict by acceding to clients' wishes.

As a consequence, the results of the study have significant implications for the international harmonization of accounting and auditing standards. For example, IFAC believes that international convergence of ethical standards will enhance the quality and consistency of services provided by professional accountants throughout the world which will in turn improve the efficiency of global capital markets (International Ethics Standard Board for Accountants, 2013, p. 1). The findings of this study support that adoption of the International Standards on Auditing and the international Code of Ethics for Professional Accountants results in uniform professional judgments that are exercised in the implementation of these international standards.

This study has certain limitations. The data were obtained from a sample of auditors in the capital city of Nairobi only. Thus, the results of the study cannot be generalized to Kenya without further investigation. Future studies may investigate the issue with a sample

which includes participants from other major cities in Kenya. Secondly, this study included mostly audit trainees and audit assistants (54% of the sample size). The level of expertise among the auditors may influence the results of the study (Johari et al., 2013). Furthermore, senior ranking managers are mostly involved in making judgments because they are usually involved in making decisions and recommendations regarding financial reporting of organizations. As such, future studies should attempt to use a larger sample size of senior ranking managers and partners so as to enhance the external validity of the findings.

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Appendix

Upendo Manufacturing Ltd is a large publicly-owned producer of electronic equipment used in hospitals and medical laboratories.

In the current year’s audit, a dispute has arisen between the auditor-in-charge and the management of Upendo over the materiality of certain unrecorded liabilities discovered during the audit. Upendo’s Chief Financial Officer argues that the total amount of unrecorded liabilities is immaterial and therefore it is unnecessary to make adjusting entries in the financial statements. Upendo’s management believes that it should know as well as anyone what financial statements readers would or would not deem to be material. The auditor-in-charge feels that the amount is material and that the financial statements should be adjusted accordingly.

But the auditor-in-charge also has to consider the fact that Upendo manufacturing is an important client contributing significantly to the total audit revenues of the firm. Furthermore, the current audit market is characterized by a large number of auditing firms that are aggressively pursuing expansion programs.

After a lengthy discussion with Upendo’s management, the auditor-in-charge decides that the unrecorded liabilities will be ignored for the purpose of the financial statements as well as the auditor’s report.

How would you evaluate the decision made by the auditor-in-charge of Upendo manufacturing company Ltd?

Instruction

Using a scale of 1 to 7, where 1 refers to ethical/ fair/ just and 7 to unethical/unfair/ unjust, please indicate your evaluation by marking a (X) on a specific point on each of the scales.

| | | | | | | | | |
|---|------|------|------|------|------|------|------|---------------------------------------|
| 1 Ethical | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Unethical |
| 2 Fair | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Unfair |
| 3 Just | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Unjust |
| 4 Morally right | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Not morally right |
| 5 Acceptable to my family | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Not acceptable to my family |
| 6 Culturally acceptable | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Not culturally acceptable |
| 7 Traditionally acceptable | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Not traditionally acceptable |
| 8 Does not violate an unwritten social contract | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Violates an unwritten social contract |
| 9 Does not violate an unspoken promise | :___ | :___ | :___ | :___ | :___ | :___ | :___ | Violates an unspoken promise |