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# The Relationship of Internal Auditors' Business Ethics Perception and Organizational Identification

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## Abstract

This study explores the business ethics perception of internal audit staff and its effect to their organizational identification. Moreover, it provides the description of the internal audit staff perception of business ethics, and from the point of view of the value of cohesion illustrate business ethics perception of internal audit staff has impact with their work and the organization's values, or goals consistency (job-organization fit), thereby affecting its organizational identification. In this study the questionnaire is the primary method for conducting quantitative research. Samples come from full time internal audit staff of stock listed company in Taiwan. The results show the relationship of the internal audit staff perception of business ethics and its organizational identification is positively correlated. Furthermore, once the internal audit staff works in ethical corporate services, their perception of business ethics will also to produce a job-organization fit and thereafter produce the organization identification.

**Keywords:** business ethics, job-organization fit, organizational identification

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# 內部稽核人員之企業倫理知覺與組織認同之關係

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## 摘 要

本研究探討企業內的內部稽核人員的企業倫理知覺對其組織認同的影響，並且從價值凝聚的觀點說明內部稽核人員的企業倫理知覺會對其工作與組織的價值或目標一致產生影響，進而影響其組織認同。採用問卷調查方式進行研究，樣本為台灣上市企業內之全職內部稽核人員。研究結果顯示內稽人員的企業倫理知覺與其組織認同之關係為正相關，以及內稽人員若在具有倫理的企業服務時，其企業倫理知覺亦會使其產生工作與組織契合度並進而產生組織認同。

關鍵詞：企業倫理、工作與組織契合、組織認同

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## I. Introduction

In the fields of management (Chughtai and Buckley, 2010; Efraty and Wolfe, 1988; Feather and Rauter, 2004) and accounting (Bamber and Iyer, 2002; Empson, 2004), many studies have noted the importance of organization identification in enhancing organizational benefits. However, these researches were mostly conducted on general employees, accounting personnel, or auditors in a company, but overlooked the organizational identification of internal auditors – a unique group of employees. Internal auditing is an indispensable management tool enforced by regulations (Stewart and Subramaniam, 2010) and is widely practiced in organizations (Eden and Moriah, 1996). The purpose of internal auditing is to monitor and detect internal control inadequacies (The institute of internal auditor, 2013) in order to ensure the legality of operations and promote organizational benefits. Due to the job nature, internal auditors require a heightened sense of ethics than general employees. Moreover, since organizational identification enhances individual in-role job performance (Chughtai and Buckley, 2010), internal auditors' organizational identification can raise their in-role performance, and even trigger their motivation to achieve personal goals within the organization (Van Knippenberg, 2000). Therefore, organizational identification is especially important to internal auditors.

After the Sarbanes-Oxley Act in 2002, the role of internal auditing had been transformed to preventing the occurrence of errors (Hass, Abdolmohammadi, and Burnaby, 2006), assurance services, consulting roles within the organization (Munro and Stewart, 2010), and evaluating and supervising the decision-making of managers (Sarens and de Beelde, 2006). At the same time, internal auditors are an important communication medium between the organization and external auditors and related stakeholders (Colbert, 2002). Therefore, if internal auditors can fully unleash their auditing performance, they can help the organization operate more healthily, achieve organizational goals, and protect the benefits of stakeholders.

Literatures pointed out that organizational identification can elicit employee behaviors that benefit the organization (Dukerich, Golden, and Shortell, 2002; Dutton, Dukerich, and Harquail, 1994; Feather and Rauter, 2004). Organizational identification is positively correlated to task involvement, work effort, and task performance (Efraty and Wolfe, 1988). Also, when employees have a stronger degree of organizational identification, they support and adopt behaviors consistent with organizational norms and values (Ashforth and Mael, 1989; Umphress, Bingham, and Mitchell, 2010). When employees do not identify with the organization, they reject organizational tasks or consciously or proactively interpret their role and reputation as disassociated with the organization (Kreiner and Ashforth, 2004). Therefore,

if internal auditors identify with the organization, they contribute toward the organization's value-added activities and achievement of successful strategies (Hass et al., 2006). Therefore, we assert that to enhance internal auditors' job performance quality, reinforcing their organizational identification appears to be one of the feasible methods. However, there are no empirical findings to support this assertion.

The core of business ethics is based upon the stakeholder theory of the corporation (Bouckaert and Vandenhove, 1998). According to the definition of internal auditing put forward by The institute of internal auditor (2013), the rudiment of internal auditing is related to business ethics, and internal auditors' ethical perspectives affect their role behaviors. However, it seems that whether or not an organization possesses business ethics would affect internal auditors' organizational identification. In this study, we assert that internal auditors' business ethics perception would affect their organization identification's attitude and behavior. For this study, therefore, the independent variable is internal auditors' business ethics and the dependent variable is organizational identification.

Previous studies stressed that to enhance the effectiveness of organizational functions, it is important for the organization to promote employees' organizational identification (Pratt, 1998). However, internal auditors' organizational identification serves both positive and negative functions because it has its dark sides (Elsbach, 1999). If so, what form of organizational identification can generate positive benefits for the organization? Using business ethics as a predictor to understand internal auditors' organizational identification could perhaps prevent the negative effects of organizational identification. If internal auditors are ethical and they identify with the organization, their views and performance could convince stakeholders that the organization is ethical and the information disclosed is reliable when they communicate with external auditors and when they report to the organization's internal governance units such as the board of directors,

An ethical corporation is generally considered to be a good corporation (Abratt and Sacks, 1988). The living and work environment of an employee could affect his or her ethical sensitivity (Patterson, 2001). Therefore, internal auditors possess a higher degree of sensitivity to the organization than other employees. As a result, if internal auditors perceive the organization as ethical, they would become psychologically attracted to the organization because they perceive it as a good corporation (Chughtai and Buckley, 2010) and would further develop identification with the organization. On the other hand, to maintain an unbiased job role as demanded by IIA (The institute of internal auditor, IIA) (Stewart and Subramaniam, 2010), internal auditors may perhaps choose not to develop organizational identification. According

to the above, the relationship between internal auditors' business ethics perception and organizational identification remains unclear.

Although previous literature stated that corporate social responsibility (CSR) initiatives enhance employees' identification with the organization (Kim, Lee, Lee, and Kim, 2010), CSR initiatives can either be internal or external. From the perspective of employees, internal CSR include employees' welfare and business ethics (Welford, 2004). However, CSR is conceptually different from business ethics (Fisher, 2004) because CSR incorporates the concept that organizations must fulfill social expectations (Gössling and Vocht, 2007) while business ethics are moral rules, standards, and guidelines or principles that provide instructions for right and trustworthy behaviors under special circumstances (Lewis, 1985). In other words, business ethics are acceptable behaviors constituted under the organizational, commercial, and business contexts (Cacioppe, Forster, and Fox, 2008). Apparently, since the dimensions of CSR differ with those of the business ethics explored in this study, we are unable to explain the relationship between internal auditors' business ethics perception and organization identification with the relationship between CSR and employees' organizational identification. Past literature indicated that employees' perception of organizational justice like procedural justice and distributive justice affect organizational identification (Hakonen and Lipponen, 2008; Olkkonen and Lipponen, 2006; Tyler and Blader, 2003). However, organizational justice is often considered as related to employees' attitude or work performance (Dailey and Kirk, 1992; Saal and Moore, 1993), a behavioral concept that refers to the perception of fairness of the past treatment of the employees within an organization held by the employees of that organization (Hosmer and Kiewitz, 2005). This concept emphasizes the understanding of the attitudes and behaviors of employees within an organization. Although business ethics similarly include the implications of fairness, it focuses on the organization's fairness to all stakeholders. In other words, due to its job role, internal auditors may develop a perception of the business ethics of the overall organization. Therefore, the relationship between organizational justice and employees' organizational identification is unable to explain whether or not internal auditors' business ethics perception affects organizational identification.

According to the above, it is unclear whether or not internal auditors' business ethics perception would have an effect on organizational identification. Existing literature examines organizational identification from the standpoint of organizational justice perception but fails to provide an explanation of whether or not perceptions of internal and external business ethics would elicit different levels of organizational identification. Therefore, the purpose of this study is to identify the factors affecting internal auditors' organizational identification from

the ethics perspective. Also, an understanding of the factors that elicit organizational identification is helpful for managers with respect to motivating internal auditors to adopt behaviors that benefit the organization and stakeholders. The results of this study can fill the gap in business ethics and organizational identification literature.

## II. Theory and Hypothesis Development

The responsibility of internal auditors is to monitor and evaluate all activities (Siegel and Schnltz, 2011) and abide by the ethical guidelines established by IIA when executing these tasks (The institute of internal auditor, 2013). Therefore, internal auditors' tasks possess ethical characteristics. Accordingly, the nature of internal auditors' work value in the organization is ethical value. Internal auditors' uphold of ethics guidelines in their job together with their existing ethical viewpoints would reinforce their ethical values (Herrbach and Mignonac, 2007). Values are defined as general beliefs about the importance of normatively desirable behaviors or end states (Edwards and Cable, 2009). Also, work objectives are seen as the performance of basic value in the work environment (Ros, Schwartz, and Surkiss, 1999). Therefore, internal auditors' ethical work objectives would strengthen their cognition of ethical values.

Internal auditors achieve their work objectives on the foundation of ethics. Therefore, internal auditors' task has ethical values. In addition, values can provide an organization with purpose, objective, and the core of organizational culture (Posner, 2010). In organizations with ethical culture, the objective is based on ethics. Therefore, organizations possessing ethical cultures create and maintain a shared pattern of values, customs, practices, and expectations which dominate normative behavior in the organization (Ardichvili, Mitchell, and Jondle, 2009; Trevino, 1990). Therefore, corporations' sense of value could be affected by business ethics in order to generate ethical values.

Corporations with moral ethics promote internal auditors' perception that they are servicing an honest, fair, and trustworthy organization. Internal auditors' daily work environment and auditing experiences would affect their ethical sensitivity (Patterson, 2001). Therefore, if internal auditors perceive their tasks as possessing ethical values, the ethical values of both the organization and individual values would be amalgamated through unobtrusive and imperceptible influence. In other words, internal auditors' intrinsic values would be molded to become consistent with the ethical values of the organization. They would perceive the ethical values of the auditing role as identical to those of the organization, which we refer to as job-organization ethical fit (J-O fit). Therefore, this study defines job and

organization fit (J-O fit) as that individual's job value or goal, as well as organization's value or goal, has consistency.

Ethical corporations allow internal auditors to become increasingly familiar with the internal compliance procedures, as well as strengthen their work values and elicit stronger J-O fit. Therefore, in organizations that are more ethical, internal auditors would find their job nature or value to be more compatible with the organization's objective or value. They would demonstrate higher work and organizational ethical value fit. According to the above, we posit the following hypothesis:

H1: The higher the internal auditors' business ethics perception, then the higher their job and organization ethical fit.

To perform their internal auditing task, internal auditors have to abide by ethical guidelines (The institute of internal auditor, 2013). Therefore, influenced by the ethical characteristics of their job, internal auditors' ethical values will be reinforced. Since individual work values constitute individual values (Elizur and Sagie, 1999), business ethics promote internal auditors' performance in executing tasks within an ethical environment. Internal auditors' ethics would be enhanced by business ethics, resulting in the coalescence of individual ethics and business ethics. Internal auditors' individual values are then integrated with the values or objectives of the work environment, resulting in job and organization fit (Da Silva, Hutcheson, and Wahl, 2010; Kristof, 1996; O'Reilly, Chatman, and Caldwell, 1991). In other words, if internal auditors execute their tasks in an ethical organization, they perceive that the organization is ethical because their ethical values are consistent with those of the organization. Internal auditors' respect for their job's ethical values will be enhanced. Therefore, if internal auditors perceive that the business ethical values of their job and the organization are identical, then their J-O fit or person-organization fit (P-O fit) will be enhanced.

Organizational identification is the process through which individual and organizational objectives becomes consistent (Edwards, 2005; Hall, Schneider, and Nygren, 1970; Schneider, Hall, and Nygren, 1971). Therefore, when internal auditors perceive the organization as ethical, their J-O fit is enhanced, which would further reinforce P-O fit. In particular, if both share the same ethical value, internal auditors' P-O ethical fit with the organization would be improved. Cognitively, internal auditors would classify themselves as an ethical group within the organization (Cable and DeRue, 2002). From the ethics standpoint, when internal auditors perceive their individual ethics as compatible with those of the organization, they would identify with the organization (Cable and DeRue, 2002). According to the above, we posit the

following hypothesis:

H2: The higher the internal auditors' job and organization fit, then the higher the organizational identification.

Since internal auditors could be affected by work ethics characteristics, their work ethical values could be reinforced. Ethical corporations promote internal auditors' identification with the organization (Fuller, Hester, Barnett, Frey, Relyea, and Beu, 2006). In other words, internal auditors perceive the organization as ethical and thus their individual ethical values are amalgamated with those of the organization. Therefore, when the values or objectives of the internal auditors and the organization are identical, internal auditors' organizational identification is enhanced (Edwards, 2005; Hall, Schneider, and Nygren, 1970; Schneider, Hall, and Nygren; 1971). We assert that higher internal auditors' perception of the organization's business ethics is associated with higher organizational identification. Accordingly, we put forward the following hypothesis.

H3: The higher the internal auditors' business ethics perception, then the higher the organizational identification.

### III. Method

#### A. Research Setting

Internationally, internal auditors are generally employed full-time or outsourced to public accounting firms (Ahlawat and Lowe, 2004). However, in Taiwan, the law stipulates that an internal auditing unit be established under the board of directors, and the suitable number of internal auditors together with a supervisor assigned according to the organization's scale (Regulations Governing Establishment of Internal Control Systems by Public Companies, 2009). As the companies listed on the Taiwan Stock Exchange are all large-sized enterprises, the internal auditing system of these companies is rather complicated and the number of internal auditors employed is quite high. Therefore, this study sampled full-time internal auditors and internal auditor supervisors in Taiwan's listed companies. Also, to determine whether the effect of internal auditors' business ethics perception on organizational identification has a more significant effect than general employees, the researchers distributed a similar set of surveys to general employees for comparison and to clarify internal auditors' unique properties. The questionnaire adopted five-point Likert scales ranging from 1 = Strongly disagree to 5 = Strongly agree.

## B. Sample Design and Procedure

Samples of this study were taken from 758 companies listed on the Taiwan Stock Exchange. All companies were listed alphabetically and then coded in numeric order. A random sampling was adopted by selecting the first and every subsequent 10<sup>th</sup> company. Of the 76 companies selected, one questionnaire was sent to an internal auditor, a general employee, and the internal auditor supervisor of each company. In total, 228 questionnaires were distributed. To ensure the confidentiality of the respondents, anonymous questionnaires were sent via post with a returned envelope attached. Respondents were then asked to mail the completed survey directly to the author.

## C. Measures

The purpose of this study is to examine the effect of internal auditors' business ethics perception on organizational identification. Variables to be measured include internal auditors' business ethics perception, job and organization ethical value fit, and internal auditors' organizational identification. The survey used in this study consists of 7 components: respondents' demographic information, internal auditors' business ethics perception items, organizational justice items, corporate social responsibility items, job and organization ethical fit items, internal auditors' personal and organizational fit items, and internal auditors' organizational identification items. The validity tests for all variables are provided in Table 1.

**Business ethics perception:** Business ethics perception was measured with Valentine and Fleischman's (2004) 10-item ethical environment scale, which was modified from Trevino, Butterfield, and McCabe's (1998) 14-item ethical environment inventory. Past literature noted that this scale has a Cronbach's  $\alpha$  of 0.91 (Valentine and Fleischman, 2004). The Cronbach's  $\alpha$  tested in this study was 0.843.

**Organizational justice:** Organizational justice was measured using Olkkonen and Lipponen's (2006) inventory, which was taken from Moorman's (1991) organizational justice scale that included 7 items on procedural justice (Cronbach's  $\alpha$  tested was 0.94) and 5 items in distributive justice (Cronbach's  $\alpha$  tested was 0.94). In this study, the Cronbach's  $\alpha$  tested for distributive justice was 0.824 and for procedural justice was 0.867.

**Corporate social responsibility:** CSR was measured with the CSR scale proposed by Turker (2009). The Cronbach's  $\alpha$  tested for the original 18-item scale was 0.9013. In this study, the Cronbach's  $\alpha$  tested for CSR was 0.92.

**Job organizational ethical fit:** The concept of J-O fit is first introduced in this study and therefore a new inventory was developed to measure the dimension. For scale development,

the researcher developed 5 items and asked 9 experts and scholars to modify the semantics of the items. One of the items was a reverse question. An exploratory factor analysis was conducted on the 5 items. The Cronbach's  $\alpha$  tested was 0.893.

Table 1. The validity test result

Variable	Resource	CFA/EFA
Ethical Environment	Valentine and Fleischman, (2004)	$\chi^2 = 64.256$ , D.f. = 28, $P < 0.05$ , RMR = 0.034, RESEA = 0.094, GFI = 0.919, CFI = 0.946
Distribution Justice	Moorman (1991)	$\chi^2 = 14.819$ , D.F. = 5, $P < 0.05$ , RMR = 0.029, RESEA = 0.116, GFI = 0.961, CFI = 0.966
Procedural Justice	Moorman (1991)	$\chi^2 = 55.482$ , D.F. = 14, $P < 0.05$ , RMR = 0.028, RESEA = 0.143, GFI = 0.903, CFI = 0.915
Interactional Justice	Moorman (1991)	$\chi^2 = 36.405$ , D.F. = 9, $P < 0.05$ , RMR = 0.029, RESEA = 0.145, GFI = 0.919, CFI = 0.938
Corporate Social Responsibility	Turker (2009)	$\chi^2 = 251.461$ , D.F. = 121, $P < 0.05$ , RMR = 0.032, RESEA = 0.086, GFI = 0.841, CFI = 0.905
Job-Organization Fit		EFA : K-M-O = 0.87, $\chi^2 = 395.735$ , D.F. = 10, Total variance explained = 70.066%, $P < 0.05$
Person-Organization Fit	Cable and DeRue (2002); Valentine, Godkin, and Lucero, (2002)	$\chi^2 = 30.905$ , D.f. = 9, $P < 0.05$ , RMR = 0.013, RMSEA = 0.13, GFI = 0.935, CFI = 0.966
Organizational identification	Smidts, Pruyn, and van Riel (2001)	$\chi^2 = 26.68$ , D.f. = 5, $P < 0.05$ , RMR = 0.017, RMSEA = 0.173, GFI = 0.928, CFI = 0.947

P-O fit: Past literature provided an extensive set of inventories on P-O fit. As this study emphasized internal auditors' fit with organizational ethical values and work objectives, the inventories developed by Cable and DeRue (2002) and Valentine, Godkin, and Lucero (2002) were adopted. The Cronbach's  $\alpha$  tested for the Cable and DeRue (2002) scale on diversified companies was 0.92, and that for Valentine et al. (2002) was 0.91. Also, since this study focused on internal auditors' perception, direct measures were adopted (Kristof, 1996) to develop 6 items to measure internal auditors' P-O fit. In this study, the Cronbach's  $\alpha$  tested for the 6 items was 0.893.

Organizational identification: Organizational identification was measured with the scale developed by Smidts, Pruyn, and van Riel (2001), which was widely used in organizational identification literature. The 5-item scale included important affective and cognitive elements (Walumbwa, Mayer, Wang, Wang, Workman, and Christensen, 2011) and had a Cronbach's  $\alpha$  of 0.84 (Smidts et al., 2001; Walumbwa et al., 2011). In this study, the Cronbach's  $\alpha$  tested for organizational identification was 0.886.

Control variables: According to McDaniel, Schoeps, and Lincourt (2001) and Hall and Schneider (1972), this study controlled gender, education level, job title, and tenure. Gender was coded 1 = male and 2 = female, education level was coded 1 = senior high/vocational, 2 = technical school, 3 = university, and 4 = master's and above; job title was coded 1 = internal auditor and 2 = internal auditor supervisor; and tenure was coded 1 = 5 years or below, 2 = 6 to 10 years; 3 = 11 to 15 years, 4 = 16 to 20 years, and 5 = over 20 years.

Of the 146 respondents, 35.6% were male. 64.4% of the respondents held technical school degrees, 65.8% university degrees, and 28.1% master's or above degrees. 39% were internal auditors, 19.9% were internal auditor supervisors, and 41.1% were general employees. In terms of tenure, 34.2% of the respondents had less than 5 years, 28.8% had 5 to 10 years, 20.5% had 10 to 15 years, 7.5% had 15 to 20 years, and 8.9% had over 20 years.

K-M-O of the samples was 0.876, which indicated that the sample intake was adequate and the validity of the instruments acceptable. To test for common method variance (CMV), unrotated factor analysis was conducted on all items. Results showed that the total variance expanded for the first principal component was  $36.28\% < 0.5$ . In other words, CMV was not a problem in this study. Also, RMSEA=0.082, RMR=0.04,  $\chi^2=559.5$ , d.f.=284,  $\chi^2/d.f.=1.97$ ,  $P < 0.05$ . These results supported the discriminant validity of the scales (Carmines and McIver, 1981; Fuller et al., 2006; Tabachnick and Fidell, 2001).

## IV. Results

Results of the descriptive statistics, correlations, and reliabilities of the variables are shown in Table 2. The Cronbach's  $\alpha$  of each variable was greater than 0.8, indicating that the validity of the scales was acceptable. An exploratory factor analysis was then used to measure J-O fit. Our results show a significant positive correlation between business ethics perception and J-O fit ( $r=0.702$ ,  $P<0.05$ ). In other words, internal auditors' business ethics perception positively affects J-O fit. Our results show a significant positive correlation between J-O fit and organizational identification ( $r=0.597$ ,  $P<0.05$ ). In other words, the higher the internal auditors' J-O fit with the organization, then the higher the organizational identification. Business ethics perception was found to have a significant positive correlation with organizational identification ( $r=0.499$ ,  $P<0.05$ ). In other words, internal auditors' business ethics perception positively affects organizational identification.

Table 2. Means, Standard Deviations, Correlations, and Reliabilities

	Mean	S.D.	1	2	3	4	5	6	7	8
1.Ethical Environment	3.6418	.48704	(0.843)							
2.Distribution Justice	3.5521	.66366	.507**	(0.817)						
3.Procedural Justice	3.4834	.51447	.590**	.521**	(0.876)					
4.Interactional Justice	3.5696	.59331	.575**	.661**	.629**	(0.886)				
5.Corporate Social Responsibility	3.6449	.45583	.642**	.517**	.604**	.556**	(0.923)			
6.Job-organization Fit	3.6244	.53240	.702**	.553**	.549**	.541**	.679**	(0.893)		
7.P-O Fit	3.5890	.55783	.579**	.486**	.581**	.525**	.710**	.756**	(0.926)	
8.Organizational Identification	3.7000	.54797	.499**	.364**	.487**	.500**	.601**	.597**	.643**	(0.889)

Note: \* significant at 0.05 (two-tailed)

\*\* significant at 0.01 (two-tailed)

( ) denotes validity

To perform empirical analysis on the data, respondents' job titles were divided into three categories: internal auditor, internal auditor supervisor, and general employee. A linear

regression was used to determine whether internal auditors' business ethics perception affects J-O fit. Results of the regression analysis are shown in Table 3. Our results show that the overall coefficients were  $\beta=0.768$ ,  $R^2=0.493$ , supporting H1, i.e., internal auditors' business ethics perception has significant explanatory power of J-O fit. In other words, an ethical organization elicits internal auditors' business ethics perception. As the internal auditing job role possesses ethical values, internal auditors develop J-O fit with the organization. Overall coefficients of the 3 groups were: internal auditor ( $\beta=0.822$ ,  $R^2=0.430$ ), internal auditor supervisor ( $\beta=0.781$ ,  $R^2=0.581$ ), and general employee ( $\beta=0.727$ ,  $R^2=0.543$ ). A comparison of these results show that internal auditors' business ethics perception has the greatest explanatory power on J-O fit. This result fully supports H1.

The study also employed linear regression analysis to test the relationship between internal auditors' J-O fit and organizational identification (H2). The overall coefficients ( $\beta=0.614$ ,  $R^2=0.356$ ) lend support to H2. J-O fit has significant explanatory power of organizational identification. In other words, when internal auditors possess J-O fit with the organization, they are more capable in their jobs. They would immerse themselves in the organization and develop organizational identification. Also, J-O fit indicates that the ethical values of internal auditors' job nature are compatible with those of the organization. Analytical results, namely internal auditor ( $\beta=0.510$ ,  $R^2=0.299$ ), internal auditor supervisor ( $\beta=0.615$ ,  $R^2=0.343$ ), and general employee ( $\beta=0.704$ ,  $R^2=0.407$ ) show that internal auditors' J-O fit has the least explanatory power on organizational identification.

A linear regression was used to test the relationship between internal auditors' business ethics perception and organizational identification. Empirical results ( $\beta=0.561$ ,  $R^2=0.249$ ) indicate significant explanatory power. Thus, H3 is supported. In other words, an ethical organization reinforces internal auditors' perception that they are servicing an ethical organization, and this would promote their identification with the organization. Analytical results, namely internal auditor ( $\beta=0.520$ ,  $R^2=0.198$ ), internal auditor supervisor ( $\beta=0.674$ ,  $R^2=0.325$ ), and general employee ( $\beta=0.573$ ,  $R^2=0.272$ ) show the smallest coefficient in internal auditor. In other words, internal auditors have a lower sensitivity toward business ethics than other employees, or internal auditors have higher requirements on the organization's business ethics.

According to the above, an ethical organization elicits internal auditors' business ethics perception, which would directly influence internal auditors' organizational identification or indirectly through J-O fit.

Table 3. Regression analysis result

	$\beta$	R <sup>2</sup>	F value	Significant
H1	0.768	0.493	140.194	.000**
Position 1	0.822	0.430	41.543	
Position 2	0.781	0.581	37.383	
Position 3	0.727	0.543	66.571	
H2	0.641	0.356	79.698	.000**
Position 1	0.510	0.299	23.500	
Position 2	0.615	0.343	14.077	
Position 3	0.704	0.407	39.845	
H3	0.561	0.249	47.741	.000**
Position 1	0.520	0.198	13.571	
Position 2	0.674	0.325	12.992	
Position 3	0.573	0.272	21.655	

Note: \*\* Significant at 0.01 (two-tailed)

## V. Discussion

The purpose of this study is to understand the effect of internal auditors' business ethics perception on organizational identification. Empirical results show that internal auditors' perception of the organization's business ethics perception affects their job and organizational ethical fit ( $r=0.597$ ,  $P<0.05$ ). When influenced by the work environment or background, individual values are considered work values (Dose, 1997), which are related to the demand for work objectives or results. Since the job role of an internal auditor is ethical in nature and value, an ethical organization could enhance internal auditors' business ethics perception, which would cause internal auditors to compare the ethical values of their work to those of the organization. When the degree of fit between the two types of ethical values is high, then the internal auditors would develop higher job and organizational ethical fit. This explanation received empirical support in this study. Although past literature has discussed different types of fits such as the relationship between individuals and the organizational environment, these studies did not mention the fit between internal auditors' personal ethical values and ethical values of the organization. Therefore, the results of this study extend the literature on fit.

Empirical results show that job and organizational fit has a significant positive correlation with organizational identification ( $r=0.597$ ,  $P<0.05$ ). Since the internal auditor's job nature is ethical, internal auditors perceive their work as possessing ethical values. When

internal auditors service an ethical organization, their job and organizational ethical value fit is enhanced. In executing tasks, internal auditors sense that they belong to the organization and thus develop identification with the organization. Internal auditors' organizational identification would further reinforce their in-role job performance (Chughtai and Buckley, 2010). This result indicates that whether or not the ethical values elicited by the nature of internal auditing role fit those of the organization has an impact on internal auditors' organizational identification. The results of this study enhance the research on the antecedents of organizational identification.

Empirical results support the proposed hypothesis on the relationship between internal auditors' business ethics perception and organizational identification ( $r=0.499$ ,  $P<0.05$ ). Internal auditors feel that they can more easily achieve their in-role ethical objectives and share common values with the organization if they are working in an ethical organization. Moreover, they develop a sense of unity with the organization and thus identify with the company. While many studies have examined the relationships between organization justice, corporate social responsibility and organizational identification (Hakonen and Lipponen, 2008; Kim et al., 2010; Olkkonen and Lipponen, 2006; Tyler and Blader, 2003), these studies did not explain the relationship between business ethics perception and organizational identification. Therefore, one of the contributions of this study is to fulfill this gap.

Empirical results show that internal auditors' business ethics perception directly or indirectly influences organizational identification. These results indicate that if organizations can offer employees business values that are similar to their personal values, they would develop organizational identification. In other words, internal auditors' business ethics perception influences job and organization ethical fit and organizational identification, and job and organizational ethical fit affects internal auditors' organizational identification. Chatman (1989) and Herrbach and Mignonac (2007) proposed that work environment values affect employees' work attitudes or behaviors, but they overlooked the effect of personal values. This study fulfills the gap. In addition, because professional employees would develop organizational identification due to the perception of personal values and organizational environment values, organizations could promote employees' organizational identification if they can provide employees with business values that are similar to their personal values.

### **A. Managerial Implications**

Our results show that when internal auditors perceive that their organization is ethical, they would develop job and organization fit. Although some corporations establish internal auditing departments in order to abide by regulations (The institute of internal auditor, 2013),

they don't allow internal auditors to fully execute their roles. Also, unethical organizations would create obstacles for internal auditors when they attempt to execute their jobs. As internal auditors fail to develop job and organizational ethical fit with the organization, they are unable to efficiently and effectively perform. Corporations, therefore, should establish their internal auditing regulations and treat stakeholders from the perspective of business ethics. An ethical environment would enhance internal auditors' business ethics perception and reinforce their J-O ethical fit. By doing so, internal auditors will become more at ease and more efficient in doing their jobs. This would help reduce the degree of internal control deficiencies within the organization.

Our research results show that higher internal auditors' job and organizational ethical fit perception is associated with higher organizational identification. In practice, some organizations are hindering internal auditors' work, causing an incompatibility between the ethical values of internal auditors and those of the organization. As a result, internal auditors do not identify with the organization and fail to rigorously report on internal control (Stefaniak, Houston, and Cornell, 2012). As a result, internal auditors' function cannot be fully realized. Therefore, organizations should establish a series of internal and external strategies on business ethics to promote internal auditors' job and organization ethical fit. By doing so, internal auditors will be able to conduct their jobs more smoothly, become convinced that the organization fairly treats all stakeholders, and then develop identification with the organization. In addition to enhancing internal auditors' work performance, internal auditors can also provide managers with reliable recommendation and engage in effective communication with managers.

Lastly, our findings show that internal auditors' business ethics perception directly affects organizational identification. In the pursuit for profit, many corporations consider themselves ethical simply by participating in corporate social responsibility activities but they overlook real business ethical values. Nonetheless, internal auditors are in a better position to form a perception of whether the organization is ethical. Therefore, organizations should integrate all policies on the foundation of business ethics in order to become corporations with real ethical value. These policies can promote internal auditors' identification with the organization. Since internal auditors identify with the organization, they become more involved in their internal auditing work and play a capable supervisor role to improve the company's internal control deficiencies.

## **B. Future Research**

Although this study sampled different industries, the respondents were Taiwanese internal

auditors. Since cultural difference may affect individuals' ethics perception (Ho, 2010), future studies can incorporate internal auditors of other countries to more comprehensively explore the direct and indirect effects of internal auditors' business ethics perception on organizational identification as well as obtain stronger empirical support. In addition, this study only examined the effect of internal auditors' ethical job values and business ethical values fit on organizational identification. However, previous studies have shown that a convergence of personal and organizational value may affect employees' performance or attitude, such as affective commitment and job satisfaction (Ambrose, Arnaud, and Schminke, 2008), or turnover intention (O'Reilly et al., 1991). Therefore, future studies can explore the relationship between job and organization fit on the job attitudes or inclinations of internal auditors and other employees in order to enrich the unexplained component in fit literature.

### **C. Limitations**

Several research limitations arise from this study. First, questionnaires were distributed to full-time internal auditors within organizations. However, some organizations outsource the internal auditing work to accounting firms. Therefore, the results of this study can only explain the relationship between in-house internal auditors' business ethics performance, job and organizational ethical fit, and organizational identification. In other words, whether or not outsourced internal auditors' business ethics perception affects job and organization fit and organizational identification goes beyond the scope of this study. In addition, empirical results show that internal auditors' business ethics perception affects organizational identification. However, since this study adopts a cross-sectional design, reverse causality may be a potential problem. In other words, internal auditors' organization identification could be an antecedent of business ethics perception because when an individual identifies with an organization, the individual develops a positive attitude toward the organization (Tajfel and Turner, 1979). Therefore, the causality of the two variables should be treated with additional care.

### **D. Conclusion**

This study examines whether or not an ethical organization can promote internal auditors' organizational identification. Since internal auditors represent an important internal control management tool from the standpoint of stakeholders, the job nature of internal auditing possesses ethical values. Ethical corporations would affect internal auditors who possess ethical job values and internal auditors would develop business ethics perception of the organization. Such perception would directly elicit organizational identification or indirectly foster organizational identification through internal auditors' job and organizational ethical values fit. Therefore, when corporations provide business ethical values that are similar to those of the employees, employees' organizational identification is enhanced.

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