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Impact of Organization Internal Factors on Ethical Intensity of Accountants in Afghanistan

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ABSTRACT

This study aims to investigate the correlation and consistency of the internal factors to organization that affect the ethical intensity of accountants at workplace in Afghanistan. To investigate this, an ethical scenario based questionnaire was developed and distributed to 250 professional and non-professional accountants who work in auditing and accounting firms in Afghanistan. For statistical analysis, Cronbach's model is initially applied and it is further tested by KMO, Bartlett's test and factor analysis to assure an accurate result. The statistical analysis reflects a highly reliable $\alpha \geq 0.9$ of the data and indicates a strong correlation of the internal factors by $r \geq 0.68$ (F1 through F10) that affect the ethical intensity of the accountants. The constructed null hypothesis is tested and on the basis of the statistical analysis and the result of study, it is therefore refuted.

Keyword: Accounting Ethics, Empirical Research, Ethical Intensity, Ethical Fragility, Financial Scandals

1. INTRODUCTION

Ethical intensity and behavior of accountants with the eruption of corporate scandals have attracted serious attention of the globe over the profession of accounting and auditing practices. Enron is only one dishonor to the profession, though perhaps the best known; other recent accounting and auditing failures include WorldCom, Microsoft, Peregrine Systems, Rite Aid, Sunbeam, Tyco, Waste Management, W.R. Grace, and Xerox, among many others (Mary, et.al., 2003). According to Metzger (2004) accounting profession has come under intense attack and scrutiny with respect to its involvement with multiple financial reporting scandals and it seems to be widely accepted today that managers, far from presenting a true and fair view of their corporate operations and financial positions, ignore proper accounting procedures to maximize their own self-interest and in some cases, both internal and public accountants have been all too willing to give management or their clients what they actually want. Ethical codes are informative and helpful. However, the motivation to behave ethically must come from within oneself and not just from the fear of penalties for violating professional codes of conduct (Rockness, 1989). Jackling, et.al. (2007) state that increased awareness of the public interest is considered to be an important ethical issue that challenges the professional accountants in today's environment. Failure to comply with the stated guidelines could have caused the accountants to be barred from practicing (Sellers, 1981) which were not too appropriate solutions that can restore the public trust on this profession. Furthermore, frequent evidences of unethical behaviors concerning the accounting with respect to other stakeholders of financial reports other than entities, may not be surprising when it is not applied effectively and in all respect (Armstrong & Mintz; 1989; Cohen & Pant, 1989; Cook, et. al., 1987-1988). Though, a sheer number of empirical researches concluded that ethical intensity or fragility are related with the level of education, commitment, religious principles, self-integrity and ... of the practicing accountants, this research seeks to investigate whether the internal factors of organization leave significant impact on ethical behavior of the accountants in auditing and accounting firms in Afghanistan.

1.1 Statement of Research Question

Though, the government and professional accounting bodies, both local and international are trying very hard to ensure the best practices of accounting and auditing through the enforcement of professional code of conduct on the members of stated above firms, this strictness is still under question. Since, there is growing criticism of accounting professional in the country; it is worth to explore the relationship of various factors that internally cause

the unethical behavior of accountants and result to fragility. Keeping this into account, the following research questions are raised:

- Does organizational environment have impact on ethical intents of accountants?
- Does top management intension effect on organizational environment in which the ethical intensity develops?

1.2 Research Hypothesis

H₀: Internal factors to organization do not have positive correlation and reliable consistency with each other that affect ethical intensity.

H_A: Internal factors to organization have positive correlation and reliable consistency with each other that affect ethical intensity.

1.3 Research Objectives

This study was specifically designed to achieve the following two objectives:

- To determine whether the internal factors to organizations are consistent and reliable to effect the ethical intensity and;
- To determine whether the top management plays a significant role in maintaining a promotional and encouragement environment to increase ethical intensity or decrease ethical fragility.

2. LITERATURE REVIEW

The literature underpinning this study is presented in three sections a) The Conceptual Framework b) A Review of global Failure of Ethics and c) A Review of Ethical Failure in Afghanistan. The first section will go on to review what an accounting ethics is, the second section will review the global financial scandals from the address of unethical behavior and the third section of the literature will majorly review the erupted financial scandals in Afghanistan that have caused the fragility of accounting ethics.

2.1 Conceptual Framework

Ethics is a set of moral principles and values that govern the conduct of an individual or an institution but the growing criticisms on the recent ethical behavior of accountants have made it more complex. According to IFAC (2006) accounting ethics is to serve the public interest and a distinguishing mark of the accountancy profession is its acceptance of this responsibility. Swift (2011) states that in sense of profession, accounting ethics call for a diversified approach. Despite the global principles of professional accounting ethics like integrity, objectivity, professional competence and due care, confidentiality and professional behavior (APESB, 2010), the accounting firms and employers are solely responsible for the practices of their employees, to the extent of this responsibility and how they could effectively translate such responsibilities, if any, into practice (Cohen & Pant, 1991; Githui, 2012). Its accounting processes should solely focus on espousing the moral (and sometimes legal) connotations of the concept of responsibility (Polo, 2008) and what it means to be held responsible while relating these to accounting practices (Githui, 2012b).

Borrowing from the work of Mehran, et.al., (2014) Characteristics of professional ethics in the modern sense are: having knowledge of the identity of being a functional role, providing professional overlay, depending on local and culture dependence of morality of human knowledge, with clear language, motivational presentations bring interdisciplinary. Since, the overall theoretical approach of the ethical intensity of the professional accountants looks at the behavior and moral principles of accountants in an attempt to distinguish good from those that are not good, this research attempted to identify the organization's internal factor that shape and reshape these behaviors.

2.2 A Review of global ethical failure

Several financial scandals in the world have caused the public to surprise. These scandals have been the result of relevant methodological defaults, rather than judgmental approach in preventing the errors (Brooks, 2004). The Enron Scandal was a surprising failure in 2001. Most of the blame for failing to recognize Enron's problems has been assigned to the firm's auditors, Arthur Andersen, and to the "sell-side" analysts who work for brokerage, investment banking and research firms, and sell or make their research available to retail and professional investors (Paul & Krishna, 2003). Accordingly, the Enron debacle furnishes a paradigm of "gatekeeper failure" that is, why and when reliance may not be justified on "reputational intermediaries," such as auditors, securities analysts, attorneys, and other professionals who pledge their reputations to vouch for information that investors cannot easily verify (John, 2002).

WorldCom presents a very different situation, albeit a fraud of very similar magnitude. In 1999, revenue growth at WorldCom (the then second largest telecommunications company in the U.S.) began to slow quite dramatically, expenses became a steadily increasing percentage of revenue, and accordingly WorldCom's stock price began to drop. In an effort to meet earnings projections, management effected several fraudulent cost-reducing and revenue-enhancing mechanisms (Kuhn & Sutton, 2006).

The Parmalat scandal has been described by the Security Exchange Commission (2003) as one of largest and most brazen corporate financial frauds in history. The Parmalat case epitomizes the most important problem traditionally associated with Continental European governance structures, namely a controlling shareholder that exploits the company rather than monitoring its managers (Guido & Giudici, 2005). In addition to the rest of appeared and hidden problems, critics claim that the audits performed in these cases were not sufficiently reliable to indicate to the recipients of the audited financial information that the firms were experiencing significant financial difficulties (Giacomino, 1992; Ponemon, 1995; Ashkanasy & Windsor, 1997), where lack of attention has been given to the ethical and professional values of honesty, integrity, objectivity, due care and the commitment to the public interest before one's own interests (Jennings, 2004; Parker, 2005). The result has been an apparent breakdown in society's belief that accountants act in the public interest. The number of accounting abuses has served as prima facie evidence that something more is needed in terms of accounting ethics (Armstrong et al., 2003, Jackling et al., 2007).

2.3 A Review of Ethical failure in Afghanistan

Afghanistan being a post-conflict environment has now become a convenient platform for administrative corruption. Nearly \$1bn has disappeared from Kabul Bank in mysterious insider loans and the scandal has pushed Afghanistan's tiny economy to the brink of ruin – and yet no one has been charged (Boone, 2014). According to Mathew (2012) Afghan and American officials had for years promoted Kabul Bank as a prime example of how Western-style banking was transforming a war-ravaged economy but the audit, prepared this year for Afghanistan's central bank by the Kroll investigative firm, gives new details of how the bank instead was institutionalizing fraud that reached into the hundreds of millions of dollars and obliterated Afghans' trust after regulators finally seized the bank in August 2010 and the theft was revealed.

World Bank (2013) states that there is an urgent need to develop a critical mass of professional accountants in Afghanistan and a code of ethics based on the IFAC Code of Ethics for Professional Accountants is needed. Though, there are number of accounting and auditing firms operating in Afghanistan like KPMG, PwC, ZACO, DV, Alliot Gulf, Horwath Mak, AGN, ANSAF and Afghanistan Holding Group, more must be done to improve the ethical approach of the firms accountants and auditors with financial and audit engagements. According to World Bank (2009b) Auditors are not subject to civil liability under any legislation and there is no law that provides for auditors to obtain professional indemnity insurance. This itself effects the morality and ethical behavior of the accountants to act in any way they want. Ethics lacks the certainty usually provided by the law, as individuals may consider some things that are legal to be unethical and in turn, views on morality differ, so even when ethical principles are codified by professional bodies or commercial organizations, they may be regarded differently according to the moral principles of each individual (ACCA, 2015). This study also revealed that there are many significant challenges and factors both external and internal to accounting firms that threat the standard ethical behavior of accountants in Afghanistan's accounting and auditing firms.

3. METHODOLOGY

An email survey was developed for this study to minimize the cost and time of the research. The contact details of the potential respondents used in this study were prepared and provided by the Afghanistan International Chamber of Commerce.

3.1 Questionnaire

A reversed Likert-type-Scale questionnaire was developed with two parts. The first part consisted of demographical variables like age, gender, qualification and experience. The second part of the questionnaire consisted of five accounting related summated ranking scores to measure the degree of morality and ethical behavior of the professional accountants in considering the organization internal factors. The respondents were asked to rank the questions from 1 to 5 (1 represented "Never", 2 "Sometimes", 3 "No Idea", 4 "At most" and 5 "Always") on the basis of their knowledge and agreement (See: table 1 and table 2).

3.2 Population

The population for this study was the professional and non-professional accountants working in accounting, auditing, business consultancy firms and NGOs across the country.

3.3 Sample

The sampling method for this study was on cluster sampling method and the formula used to determine the sample size was:

$$n = \left(\frac{\partial \chi z \frac{\infty}{2}}{d} \right)^2 \quad (1)$$

On the basis of cluster distribution, the qualified firms were selected from north, south-west, west and eastern provinces. Due to some limitation to access internet and technology, few provinces were omitted from the sample. The sample size was set to be 250 respondents. The accounting for the probability of non-return questionnaire, the initial distribution was 275 out of which 250 or 91% of the respondents had completed and returned the same (see: table 2).

3.4 Data Analysis

SPSS software was used for statistical analysis of the data collected for the current study. The ∂ Cronbach model which is based on the reliability of a test relative to other tests with same number of items, and measuring the same construct of interest (Reynaldo & Santos, 1999) was computed to test the reliability of the data. The equation for determining the statistics reliability and data consistency on the basis of the respondents' summated scores (See: table 3) was:

$$r_a = \frac{j}{j-1} \left(\frac{\sum S_j^2}{S^2} \right) \quad (2)$$

A commonly accepted rule of thumb for describing the excellent internal consistency of the ∂ Cronbach is $\partial \geq 0.9$ (DeVellis, 2012) and the result of our analysis shows a reliability statistics of 0.915 which is highly acceptable to this circumstance. For the interpretation of reliability and the index of measurement error associated with the sample, we further extended our computation to square the correlation to determine the degree of error as; $1 - (0.915^2) = 0.163$. Nunnally & Bernstein (1994) argue that when the estimate of reliability increases, the fraction of a test score that is attributable to error will decrease. The analysis of the data shows a reliability statistics of 0.915 that is the most preferable validity coefficient. Since, the questionnaire consisted of 10 questions and to synthesize the result of analysis and to assure the correlation of the items (F1 through F10), we have further extended our analysis by running factor analysis of principle component and KMO and Bartlett's Test that the result of which, shows a strong positive correlation of the items which is pretty good in practice (see: table 4). The component matrix also shows a relatively high positive correlation of the factors towards component 1 (see: table 5) which supports our ultimate result.

4. DISCUSSION

Psychological assessment of ethical intensity of accounting practitioners had been the research point of many researchers and a sheer number of research articles have also been published in this area. Many researchers have concluded that the major factor of many financial scandals is raised from unethical behavior of the accountants and caused the public to lose trust on this profession. Similar with the work of Bamber and Iyer (2002; 2007) who examined the possible conflicting motivations of auditors' professional and ethical behavior, this study researched the internal consistent relationship of the factors which cause the accountants to behave unethically. Although there is a mixed evidence about organizational – professional conflict (Gunz & Gunz, 2007), this study investigated the internal reasons and causes of ethical behavior of the professional and non-professional accountants in the context of an organization. The statistical analysis of this study suggests that there are strong, consistent and reliable internal reasons that enforce the accountants to deliberately lose ethics. Jan Svanberg (2012) argues that pragmatic view of the professional role may be the effect of competitive pressures, or the culture of the employer organization. Hence, the lower the organizational culture is, the lower the ethical behavior of accountants will be. Apparently, the respondents have been fairly aware to distinguish between the components and factors that pressurize the ethical intent of the accountants at the workplace (see: table 1).

5. CONCLUSION

This study was specifically designed to investigate the internal consistency and correlation of the internal organizational factors that increase or suppress the ethical behavior of accountants in the accounting, auditing and business consultancy firms in Afghanistan. The data collected and analyzed herein, shows an excellent consistency of ∂ 0.915 between the internal factors that affect the ethical intensity of the accountants. A further application of KMO and Bartlett's test supported the strong positive correlation between the components, thus this indicates that the null hypothesis is therefore refuted. In addition, the following two points are worth to state:

1. Organizational culture and environment positively correlate with the degree of ethical intensity of accountants. The greater the mature environment, the greater the intensity of ethical behavior and vice – versa.
2. An organization's environmental maturity positively correlates with the behavior of the top management and their intension to build and promote the mature environment in order to encourage ethical intensity.

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Annex-I

Table 1: Questionnaire Analysis

	No. of Questions Distributed	275	100%
	No. of Questions returned	250	91%
	No. of Questions not returned	25	9%
Firms / Organizations	Frequency	%age	
Accounting Firms	145	58	
Business Consultancy Firms	60	24	
Auditing Firms	4	1.6	
NGOs	41	16.4	
Total	250	100	
Gender	Frequency	%age	
Male	215	86	
Female	35	14	
Total	250	100	
Qualification	Frequency	%age	
MA	45	18	
BA	133	53.2	
CA/ACCA/CAT/CPA	72	28.8	
Total	250	100	
Experience	Frequency	%age	
1-3 Years	113	45.2	
3-5 Years	52	20.8	
5-10 Years	42	16.8	
+10 Years	43	17.2	
Total	250	100	

Decision Rule

Table 1 shows the demographical variables of the respondents with connection to this study. Most of the respondents with higher qualification such as MA (Master of Arts) are wage based employees at the consultancy and accounting firms who are frequently being replaced by new ones. Hence, their responses are subject to a degree of biasness.

Table 2: Items of Questions and Frequency Distribution

Item	Statement	1	2	3	4	5
F1	Organization Environment has positive effect on ethical behavior of accountants.	5	12	69	71	93
F2	Mature environment results to higher ethical intensity.	5	12	51	50	132
F3	Top management or are those charged with governance can play a significant role in maintaining the ethical environment.	4	15	78	40	113
F4	Internal Factors to organization will increase or decrease the ethical intensity.	4	14	70	51	111
F5	Ethical Promotional campaigns will increase intensity at the workplace.	4	23	81	49	93
F6	Remuneration packages offered by Afghan firms are the main factor to ethical intensity or fragility.	4	12	40	79	115
F7	Internal collusion is the source to increase ethical fragility.	4	14	41	74	117
F8	Lose control system increases ethical fragility.	4	12	36	97	101

F9	Unethical approaches to accounting affairs related to the accountant's background.	4	15	54	78	99
F10	Frequent Labor turnover is also a matter of ethical concern.	8	33	53	83	73
Total		46	162	573	672	1047
Percentage		1.84	6.48	22.92	26.88	41.88

Decision Rule

The respondents were asked to score their agreement on the basis of the questions raised therein. 41.88+26.88% of the respondents were mostly and always agreed to internal factors that impact the ethical intensity. 22.92% had no idea and the rest of 6.48+1.84% showed their disagreement to the impact and relation of internal factors on the ethical intensity of the accountants at the workplace. A degree of conservatism was initially anticipated in the responses that apparently 22.92% of the neutral responses reflect the same. Hence, the overall reliability is effected thereof.

Table 3: Reliability Statistics (SPSS Output)

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.915	.917	10

Decision Rule

Table 3 shows the statistical analysis of the data by applying the ∂ Cronbach's model to investigate the degree of reliability and consistency of the data to conclude the finding. The result shows the $\partial \geq 0.90$. Hence, with adjusting the redundancies, a maximum ∂ of $\geq .90$ is highly recommended for accurate conclusion (Streiner, 2003; Mohsen, 2011).

Table 4: KMO and Bartlett's Test (SPSS Output)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.915
Bartlett's Test of Sphericity	Approx. Chi-Square	1417.380
	df	45
	Sig.	.000

Decision Rule

To further assure the result of ∂ Cronbach's model, a KMO test has also been applied that the result shows the same ∂ 0.915 degree of reliability and consistency of the data.

Table 5: Component Matrix^a (SPSS Output)

		Items									
		F1	F2	F3	F4	F5	F6	F7	F8	F9	F10
		.683	.791	.736	.776	.730	.790	.754	.825	.782	.689

Decision Rule

Table 5 shows positive correlation coefficient of the items 1 through 10. The highest correlation among the item is +.825 for F8 (Lose control system increases the ethical fragility) and lowest one +.683 for F1 (Organization Environment has positive effect on ethical behavior of accountants) which is pretty strong to reflect the impact of environmental factors on ethical intensity. Hence, the Component Matrix model supports our conclusion that there are reliable and consistent correlation between the ethical intensity / fragility and organizational internal factors.