

The Relationship Among Ethical Climate, Job Satisfaction, Organizational Commitment, and External Auditor's Turnover Intention

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This study attempts to examine the relationship among ethical climate, job satisfaction, organizational commitment, and turnover intention in the context of the Malaysian external auditor's work environment. The questionnaire is sent to a sample of external auditors from Malaysian Big Four (Klynveld Peat Marwick Goerdeler (KPMG), Ernst and Young, Deloitte KassimChan, and PricewaterhouseCoopers (PwC)) main offices. There are 167 useable responses. The regression results have provided evidence that ethical climate is directly, significantly, and positively associated with job satisfaction. In contrast, ethical climate appeared not to be directly related with external auditor's turnover intention. Both job satisfaction and organizational commitment were identified as significant predictors in explaining turnover intention, since they had a significant and negative effect on external auditor's turnover intention. This study also implied that job satisfaction had a significant effect on organizational commitment. Furthermore, the findings revealed that organizational commitment partially mediated the relationship between job satisfaction and turnover intention. The results extend the literature on external auditor's turnover intention and provide insights for human resource management in accurately assessing employee's turnover intention in order to improve retention and reduce actual turnover particularly in audit firms.

Keywords: external auditing, ethical climate, job satisfaction, organizational commitment, turnover intention

Introduction

Research has consistently shown that employee turnover is a serious problem especially in the environment of corporate management, nursing, and public accounting firms. Hildebeitel and Leaby (2001) have provided evidence that one international public accounting estimates hiring and replacing an existing employee cost 150% of that employee's annual salary. As recruiting and training costs are expensive, it becomes a great challenge for the accounting firms to survive. Additionally, for the public accounting firm, high staff turnover will eventually result in the audit firm having inexperienced staff. An often changing of staff would possibly affect the quality of audit services provided by the firm. This unfavorable situation definitely demonstrates that the values of the audit firm to markets and clients have fallen below the expected standards.

Thus, the inability of a firm to retain its employees would indirectly harm the profession, because it fails to guarantee a solid reputation of competence in delivering audit services.

Overtime, it is clear that the majority of the Big Four audit firms experience high rates of turnover among external auditors. This statement is supported by previous academic studies highlighting that there is a high level of voluntary turnover experienced by professional auditors employed by large public accounting firms (Rhode, Sorensen, & Lawler, 1977; Ferris, 1981; Bullen & Flamholtz, 1985). Further, Hildebeitel and Leauby (2001) showed that the Big Five, which currently known as Big Four audit firms, experienced the largest migration of their employees leaving the job. In addition, a survey of audit recruitment indicates that only 27% of graduates are expected to stay in the auditing profession for five years or more (Accountancy Magazine, 2008). Even in the Big Four blog of firm employment analysis (Big Four Firms Network, 2009), it is disclosed that in 2008, the Big Four audit firms cumulatively would have made about 140,000 new hires to account for the loss of professionals and the additional growth. Thus, in order to reduce such a high turnover cost, it is essential for the large public accounting firms such as the Big Four to ensure that their levels of turnover rate are manageable. Furthermore, since the accounting profession has an obligation to honor the public trust and a commitment to performing job competently, it is indeed crucial for partners of the firm to examine the causes of staff leaving the firm.

Objective

Overall, this study is motivated to investigate the compliance of ethical climate in an audit firm, the degree of job satisfaction, organizational commitment, and turnover intention of external auditors in Big Four audit firms in Malaysia.

The sub-objectives of this study are:

- (1) To examine auditor's perception of the relationships between ethical climate and job satisfaction;
- (2) To examine auditor's perception of the relationships between ethical climate and turnover intention;
- (3) To examine the relationship between auditor's job satisfaction and organizational commitment;
- (4) To examine the relationship between auditor's job satisfaction and turnover intention;
- (5) To examine the relationship between auditor's organizational commitment and turnover intention;
- (6) To examine auditor's job satisfaction effects on turnover intention through organizational commitment.

Problem Statement

Quality services provided by the external auditor have been given heightened attention internationally and locally. The external auditors are expected to deliver high-quality audits as a value-measuring service provided by them. The problem is that in today's audit environment, the public accounting firms, especially the Big Four, are consistently experiencing high turnover intention among their staff (Hildebeitel & Leauby, 2001). The phenomenon of high staff turnover will hinder auditors to provide high-quality audit services. As a result, the audit firm is likely to be adversely affected in the capital market and the profession will suffer from damage to reputation. There are several reasons for external auditors to leave the organization. As such, the challenging audit tasks, the changes in regulations and standards, conflict-of-interest situations, and existence of several threats to independence are perhaps the contributing factors for external auditors to leave. Code of ethics supposedly cannot be overlooked especially when dealing with ethical dilemmas. Thus, it is worth noting that ethics and compliance need to be considered seriously by everyone, including the external auditors. This is

because compliance with high standard of ethics is crucial for the audit firm where its nature of business is to fulfill clients and stakeholders' obligation and to deal with clients and stakeholders' demands (Jayalakshmy, Seetharaman, & Wei Khong, 2005). Thus, circumstances that may give rise to conflict of interest will require auditors to comply with code of ethics. When both are in conflict, auditors should recognize that their responsibility is to place the interest of the public above their own interest. Failure to do this will clearly influence their job satisfaction, as they would feel that they could not perform their jobs well as expected by the public. Put another way, if auditors are not able to adhere to firms' rules and procedures, negative ethical climate will be created and it will have a negative impact on job satisfaction. According to Schwegker (2001), creating such a climate may have unfavorable consequences such as lower job satisfaction.

In addition, the need to attain and maintain significant technical knowledge, meet deadline, and face long promotion path (Kalbers & Cenker, 2007) could also have an influence on external auditor's attitude concerning how well he/she likes and dislikes his/her job. Experiencing things that he/she dislikes perhaps would affect his/her attachment and loyalty to the current firm. The more dissatisfied employees become, the more chances that they would reduce their loyalty to the present firm and the more likely they are to consider other employment opportunities. Since employees are firms' assets and resources essential in achieving firms' targets, their satisfaction towards job would indeed be essential in ensuring that they remain in the current firm.

Previous studies have demonstrated that satisfied employees play a crucial role in firm's success (Lorber & Savič, 2012). Nevertheless, it is arguable that even though external auditors are satisfied with their jobs, they can choose to leave the firm for better salary or better career development. Thus, having job satisfaction alone does not guarantee that the external auditors will stay long in the firm. Only those external auditors who have a high belief in the firm's values and standards would maintain their membership in the firm. In other words, if external auditors are able to identify values and standards of the firms, there is greater likelihood that they will stay in the firm and less likely to leave the firm (Mowday, Steers, & Porter, 1979). Thus, perhaps organizational commitment is essential to be the mediating factor between external auditor's job satisfaction and turnover intention. Clugston (2000) have examined the mediating effect of multiple dimensions of organizational commitment on the relationship between job satisfaction and intention to leave. Further, Lum, Kervin, Clark, Reid, and Sirola (1998) stated that job satisfaction has an indirect influence on the intention to quit, but organizational commitment has the direct impact.

Therefore, it is important for this study to investigate the turnover intention, especially among professional audit staff, by taking into consideration organization's ethical climate, employee's job satisfaction, and organizational commitment.

Literature Review

Turnover Intention

According to Cotton and Tuttle (1986), turnover intention is defined as employees' estimated probability that they will leave their organizations. Turnover intention is a warning sign before an individual actually quits a job, since it is considered as a preceding factor for effectively forecasting an employee's propensity for changing occupations. Meyer and Allen (1984), however, defined turnover intention as employees' intentions to abandon their organizational membership and quit their current jobs. Similarly, Tett and Meyer (1993) defined turnover intention as "conscious and deliberate wilfulness to seek for other alternatives in other organizations" (p. 262). Employing Ponnun and Chuah's (2010) definition, the present study therefore defined

turnover intention as “the starting point where employees begin to consider and search for other opportunities seriously once they have intention to leave the organization”.

As mentioned earlier, the turnover intention in the auditing environment is perceived to be crucial due to the high level of voluntary turnover reported among professional auditors (Rhode et al., 1977; Ferris, 1981; Bullen & Flamholtz, 1985). For public accounting firms, such high turnover rates are costly, because these firms are not able to cover their investment in training when their employees leave the firms early. This will result in high cost to be incurred for recruiting and training new hires to account for the loss of professionals. Given such expensive cost of employee turnover, audit firms need to clearly understand why auditors are leaving their jobs. Thus, the identification of the factors contributing to turnover intention among professional audit staff is important in order to overcome the negative consequences of this unfavorable phenomenon.

Ethical Climate

Creating ethical climate by enforcing codes of ethics has been suggested as a way to correct unethical behavior within the organization. As argued by Schneider (1975), there are many types of work climates, one of which had been considered by Victor and Cullen (1988) as ethical climate. For Victor and Cullen (1988), ethical climate is defined as “the prevailing perceptions of typical organizational practices and procedures that have ethical content” (p. 101), and they argued that the ethical climate in organizations will be an important source of information to employees regarding what actions are right or ethical in a work context. They proposed ethical climate types based upon three major classes of philosophy that comprise principle—an abstract desire to do what is right irrespective of the outcome or the impact on others, benevolence—desire to do good, and egoism—wishing to maximize own interest.

Higher levels of ethical behavior have been found in firms where codes of ethics are in place and enforced (Ferrell & Skinner, 1988). Researchers believe that when employees know that their actions are guided by rules and procedures, they perceive an absence of conflict within themselves, find work more meaningful, and display positive attitudes and behaviors in the organization (Martin & Cullen, 2006; Weeks, Loe, Chonko, Martinez, & Wakefield, 2006). This argument had been further supported by Ahmed, Shad, Mumtaz, and Tanveer’s (2012) study which indicated that an organization having strong ethical climate and supportive top management for ethical behaviors is likely to yield more favorable work related as well as organizational outcomes. The absence of punishment may provide an opportunity for unethical behavior in the organization. In order for the management to create an ethical climate that positively influences ethical behavior in the organization, enforcing codes of ethics and policies as well as rewarding ethical behavior and punishing ethical behavior need to be considered (Podsakoff, 1982). This finding had been supported by Weeks and Nantel’s (1992) study which investigated the relationship between a code of ethics and sales force behavior. Their results indicated that greater ethical behavior is likely to be raised when codes of ethics are effectively communicated and understood.

Thus, the definition of ethical climate in the present study can be referred to as “type of work climate that reflects compliance to audit firm’s rules, standard operating procedures and Malaysian Institute of Accountants (MIA) by-laws, and enforcing codes of ethics and policies as well as rewarding and punishing ethical behavior”.

In summary, improving ethical climate in organizations by emphasizing ethical culture is important in order to improve employee’s commitment and job satisfaction and makes good business sense. This argument

is further supported by DeConinck's (2011) study who believed that an ethical work climate can directly affect people's job attitudes and outcomes.

Job Satisfaction

Global job satisfaction is a popular topic in the area of work-related attitudes (Kontoghiorghes & Bryant, 2004; Testa, 2001). Job satisfaction is a complex construct and is often measured as a global attitude of an employee towards his or her work either satisfied or dissatisfied with the job. According to Herzberg (1968), individuals will develop positive job attitudes if their jobs allow them to fulfill and satisfy their needs. Consistent with Herzberg (1968), study done by Hackett and Guion (1985) showed that dissatisfied employees are more likely to quit their jobs or be absent than satisfied employees. In the auditing literature, job dissatisfaction is identified as one of the most significant influences with an intention to leave the current employment (Snead & Harrel, 1991). Thus, studying job satisfaction for auditors is important mainly due to the nature of auditing function which is normally exposed to extreme work pressure, long working hours, and extensive travel commitments. Due to this unfavorable working condition, auditors are not able to find satisfaction with their current jobs (Dalton, Hill, & Ramsay, 1997). Thus, it is crucial for audit firms to pay more attention to this unfavorable phenomenon which must not be overlooked in order to understand their employees' needs and be able to satisfy them, thus helping firms reduce excessive turnover. Job satisfaction in the present study is defined as "employees' satisfaction with their work and current practice".

Organizational Commitment

Organizational commitment has received considerable attention due to its significant impact upon work attitudes, such as job satisfaction, performance, absenteeism, and turnover intention (Okpara & Wynn, 2008). Few researchers have suggested that organizational commitment is the outcome of job satisfaction (Suliman, 2002; Bagozzi, 1980; Brown & Peterson, 1994; Reichers, 1985). Nevertheless, a study of Bateman and Strasser (1984) has suggested that organizational commitment is the antecedent of job satisfaction. In addition, Shore and Martin (1989) and Mueller and Price (1990) have also identified organizational commitment as a mediator between job satisfaction and turnover intention. In the context of auditing environment, auditors normally are not able to balance between work and non-work commitments due to long hours and highly competitive and stressful conditions (Dalton et al., 1997). Thus, organizational commitment is an important variable that needs to be considered in auditing field as it will affect firm's efficiency and effectiveness.

Control Variables

Age and gender are employed as control variables in the present study.

Age. A study of Yin-Fah, Foon, Chee-Leong, and Osman (2010) indicates that younger employees are obviously having higher turnover intentions than older employees. Age also has a positive association with organizational commitment (Ketchand & Strawser, 2001). Furthermore, previous findings show that age appears to be significant on level of job satisfaction (Noordin & Jusoff, 2009). From the perspective of ethical behavior, Victor and Cullen (1998) suggested that age is positively correlated to ethical behavior.

Gender. Previous research, for instance, Kirkcaldy, Furnham, and Lynn (1992) found that women have a tendency to obtain higher mean scores than men with respect to work ethics across occupations. Studies also noted that turnover intentions for both genders are highly correlated with both job satisfaction and organizational commitment (Mowday et al., 1979; Steers, 1977).

Hypotheses Development

As illustrated in Figure 1, this study examines the relationship among ethical climate, job satisfaction, organizational commitment, and external auditor's turnover intention. Additionally, this study also attempts to examine the association between job satisfaction and turnover intention which is mediated through organizational commitment. In this study, job satisfaction will not be tested as a mediator for the relationship between ethical climate and organizational commitment, since there are limited studies that have addressed this issue.

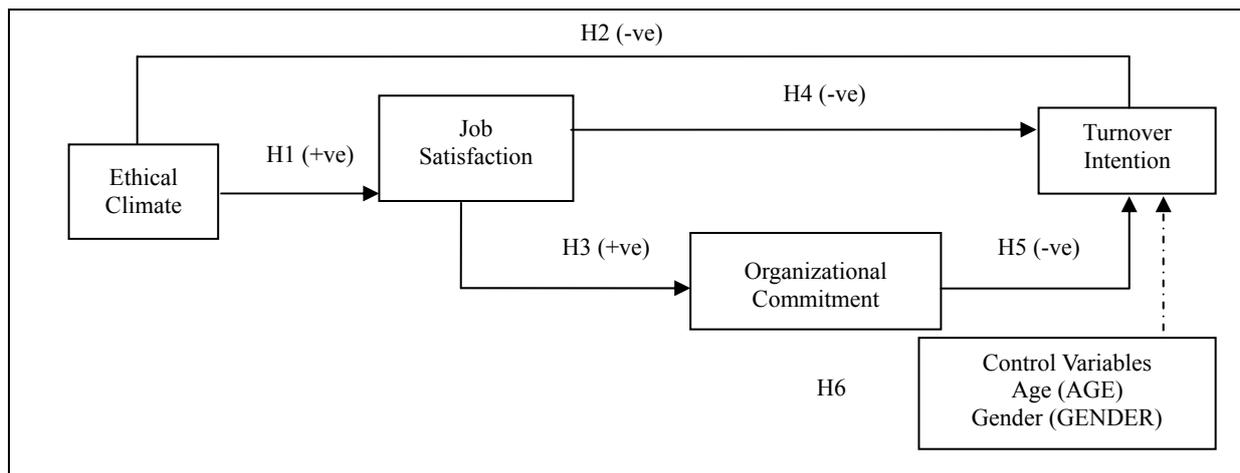


Figure 1. Conceptual model and hypotheses.

Ethical Climate and Job Satisfaction

Cognitive dissonance theory can be used to explain the link between organizational ethics (comprises top management support for ethical behavior, the ethical climate in the organization, and the association between ethical behavior and career success) and job satisfaction (Koh & Boo, 2001). Koh and Boo (2004) discovered that employees are likely to have a higher level of job satisfaction when they perceive strong top management support for ethical behavior, a favorable ethical climate, and a strong association between ethical behavior and career success in the organization.

According to the cognitive dissonance theory (Festinger, 1957), individuals strive to minimize dissonance in their environment, because continued dissonance will result in distress and dissatisfaction with the situation (Viswesvaran, Deshpande, & Joseph, 1998). Schwepker (1999) highlighted that employees essentially desire consistency between their ethical value systems and the ethical climate of their organizations. When employees perceive little top management support for ethical behavior, an unfavorable ethical climate in their organizations and little association between ethical behavior and career success, it will result in a moral conflict and cognitive dissonance which in turn reduce job satisfaction. Sims and Kroeck (1994) further mentioned that lack of ethical fit between employees and their organizations will result in distress and job dissatisfaction. Thus, when there is an ethical fit (congruence) between employees and their organizations, a positive link is expected between organizations' ethical climate and job satisfaction. This is because a higher level of ethics in an organization is expected to be associated with a higher level of job satisfaction.

Consistent with cognitive dissonance theory, the present study argues that from the perspective of auditing environment, organizational ethical climate is important, because auditors are expected to carry out business

with high standards of ethics, integrity, and trustworthiness. When auditors perceived that firm's ethical climate is effectively communicated and well fostered, they will exhibit more satisfaction and find their work more meaningful. Therefore, we offer the following hypothesis:

H1: There is a positive relationship between auditors' perceptions of their organizations' ethical climate and their job satisfaction.

Ethical Climate and Turnover Intention

Individuals who desire an ethical climate should be less likely to leave an organization where climate is perceived as ethical. According to Ulrich, O'Donnell, Taylor, Farrar, Danis, and Grady (2007), a positive ethical climate reduces nurses and social workers' intentions to leave due to the perceptions of adequate or extensive institutional support for dealing with ethical issues. Based on Ulrich et al.'s (2007) study, the present study argues that in the context of auditors' nature of work, compliance to the highest standards of ethical conduct is crucial in performing their jobs. Thus, when auditors believed that their firms are not emphasized and enforced on ethical climate environment, it will encourage them to leave, since they are unable to recognize a fit between themselves and their work positions. For this purpose, we generate the following hypothesis:

H2: There is a negative relationship between auditors' perceptions of their organizations' ethical climate and their turnover intentions.

Job Satisfaction and Organizational Commitment

According to Herbohn (2005), auditors are exposed to extreme work pressure, long working hours, and extensive travel commitments. Lack of job satisfaction among auditors will lead to a low level of organizational commitment. Muliawan, Green, and Robb (2009) who conducted a study among information system auditors also found a similar result for the association between the two variables. Based on the two studies, the present study argues that in highly stressful conditions, auditors will not be able to find satisfaction towards their current jobs. Thus, their commitment towards firms will be affected. Therefore, the evidence suggests that auditor's job satisfaction is related to organizational commitment as follows:

H3: There is a positive relationship between auditors' job satisfaction and their organizational commitment.

Job Satisfaction and Turnover Intention

Previous studies have shown that turnover intention dropped significantly after an attempt to increase the degree of satisfaction (Abraham, 1999; Samad, 2006a, 2006b; Masroor & Fakir, 2010). An earlier study of Harrell, Chewning, and Taylor (1986) who have explored the relationship among organizational-professional conflict, job satisfaction, and turnover intentions of internal auditors also discovered the same results. From the perspectives of public accounting firms, job satisfaction was significantly related with the intention to leave the job among the audit staff (Hasin & Omar, 2007). This result has been further proved by Kalbers and Cenker (2007) who found that lower turnover intentions for auditors are associated with greater job satisfaction. Based on studies of Hasin and Omar (2007) and Kalbers and Cenker (2007), the present study argues that auditing profession has been identified as the most stressful area of specialization and a highly stressful profession. Thus, this situation is likely to affect auditor's level of job satisfaction and leave a great impact on turnover intention. Therefore, we propose the hypothesis as follows:

H4: There is a negative relationship between auditors' job satisfaction and their turnover intentions.

Organizational Commitment and Turnover Intention

Stallworth (2004) found that organizational commitment is the best predictor of intention to leave. Furthermore, Kalbers and Cenker (2007) proved that as auditors move to more senior levels, they are less inclined to leave the organization, since they gain more commitment for the organization. Based on the studies of Stallworth (2004) and Kalbers and Cenker (2007), the present study argues that auditors will have less intention to leave their present employers if they perceived higher commitment and felt attached towards their firms. This is because auditors who feel committed with their firms would produce and perform better work and thus will have less intention to seek opportunities with other firms. Hence, we propose the following hypothesis:

H5: There is a negative relationship between auditors' organizational commitment and their turnover intentions.

Mediating Effect of Organizational Commitment on the Relationship Between Job Satisfaction and Turnover Intention

Davy, Kinicki, and Scheck (1991) identified organizational commitment as a mediator between job satisfaction and turnover intention. The basis for the hypothesized mediating role of organizational commitment follows the work of Shore and Martin (1989) who found less effect of job satisfaction than that of organizational commitment with turnover intention of the bank tellers. Based on the two studies, the present study argues that from the perspective of auditing environment, organizational commitment is associated more strongly than job satisfaction with auditors' turnover intentions. With a high level of commitment, auditors tend to put extra efforts to continuously achieve their needs and job satisfaction and thus less likely to leave their firms. Therefore, we hypothesize the relationship as follows:

H6: Auditor's job satisfaction effects on turnover intention are mediated by organizational commitment.

Data and Methodology

The sample includes selected external auditors who worked in the Big Four audit firms in Malaysia. Based on MIA annual report in 2010, the overall membership at MIA grew by 5% in 2010 against 2009 to 26,250 members in total. However, there is no database available regarding the number of Big Four external auditors in Malaysia. Since the actual total population of external auditors attached to the Big Four audit firms operating in Malaysia is unknown, this study only chooses selected external auditors working in Malaysian Big Four main offices as the perceived population based on the availability and convenience. Besides that, the selection of these Big Four audit firms is because these professional firms handled the vast majority of audits in large companies, operated globally and established as employment leaders especially among fresh graduates in Malaysia. This has been proven in the Big Four blog of firm employment analysis which revealed that Big Four audit firms are huge seekers of talent particularly among college grads with correspondingly very busy recruiters even in a period of deep recession.

In choosing the representative samples, a simple random sampling design was used where every person in the population has a known and equal chance of being selected as a subject regardless of seniority. A total of 167 useable responses were obtained, representing a response rate of 27.83%.

Measurement of Variables

The survey instrument to measure ethical climate, job satisfaction, organizational commitment, and

turnover intention was based on previously validated questions adapted and adopted from other researchers. Besides that, the scale for control variables was also adopted from past studies' measurement.

Ethical climate. Similar with the measurement used by Koh and Boo (2004), this study adapted Cullen, Victor, and Bronson's (1993) measures of ethical climate. The adaptation is done by replacing the word "organization" with "firm". This is necessary in the context of external auditor's work environment; the common term used is "firm" rather than organization. Victor and Cullen (1988) proposed three dimensions of ethical climate which comprise egoism, benevolence, and principle that are ethical criteria used in decision-making. However, only one dimension of ethical climate will be assessed in this study, that is, the dimension of principle. This is because only the principle dimension is relevant to the external auditors' profession, which emphasizes the compliance with rules and standard operating procedures. The other two dimensions of ethical climate (egoism and benevolence) are believed to have no influence on external auditors' work environment, as they are considered as professional employees. Thus, the definition of ethical climate in this study can be referred to as type of work climate that reflects compliance to audit firm's rules, standard operating procedures, and MIA by-laws. In addition to Cullen et al.'s (1993) questionnaire, this study adds another two questions based on Podsakoff's (1982) study which stated that in order for the management to create an ethical climate that positively influences ethical behavior in the organization, enforcing codes of ethics and policies as well as rewarding and punishing ethical behavior need to be considered. This category is measured by seven items on a 7-point scale, ranging from "strongly disagree (1)" to "strongly agree (7)". A high mean score will represent auditor's perception of a more ethical climate.

Job satisfaction. In this study, job satisfaction can be defined as employees' satisfaction with their work and current practice. Here, job satisfaction is measured as an overall rather than the aggregate of individual facets of job satisfaction. One of the questions mentioned is about "Overall, I am pleased with my work". Consistent with the items used by Chiu, Chien, Lin, and Hsiao (2005), job satisfaction is measured using the questionnaire which was originally developed by Konrad, Williams, Linzer, McMurray, Pathman, Gerrity, ..., and Douglas (1999). Four questions of job satisfaction will be asked and measured on a scale ranging from "strongly disagree (1)" to "strongly agree (7)". A higher level of job satisfaction will indicate that the individual is highly satisfied with his or her job.

Organizational commitment. The variable organizational commitment is measured by adopting the questionnaire that had been developed by Mowday et al. (1979) which is composed of five items. According to Mowday et al. (1979), organizational commitment can be defined as identification and involvement of an individual in a particular organization. "I feel very little loyalty to this firm" is one example of the question. A 7-point Likert scale ranging from "strongly disagree (1)" to "strongly agree (7)" will be used. A high mean score will indicate greater organizational commitment. This measurement has also been used by Chiu et al.'s (2005) study.

Turnover intention. In this study, turnover intention is the dependent variable. According to Cotton and Tuttle (1986), turnover intention is defined as employees' estimated probability that they will leave their organizations. To measure the intention to leave among auditors in Big Four audit firms, three items constructed by Jenkins (1993) and Kransz, Koslowsky, Shalom, and Elyakim (1995) are used. One example of the question is "Presently, I am actively searching for other jobs". These items were rated on a 7-point Likert type scale ranging from "strongly disagree (1)" to "strongly agree (7)". Respondents will need to indicate their levels of

agreement or disagreement on items provided. A high mean score will represent a greater propensity to leave. This measurement has also been used in Masroor and Fakir's (2010) study.

Reliability Tests

Reliability tests are undertaken for each variable. The results are given in Table 1.

Table 1

Results for Reliability Analysis

Variable	Cronbach's alpha	
	Before deletion of scale items	After deletion of scale items
Ethical climate	0.624	0.710
Job satisfaction	0.547	0.682
Organizational commitment	0.614	0.693
Turnover intention	0.895	-

In order to measure the reliability or internal consistency of the instruments used, Cronbach's alpha is employed. As cited in Metaxas's (2010) study, a commonly-accepted rule of thumb is an alpha of 0.6-0.7 which indicates acceptable reliability and 0.8 or higher which indicates good reliability (Cronbach, 1951). In this study, certain items were deleted to increase the reliability statistics. For ethical climate, item number two "Employees in my firm are not expected to stick to firm policies strictly" was deleted. In terms of global job satisfaction, item number three "My current work situation is a major source of frustration in my life" was deleted. On the other hand, for organizational commitment, item number two "I feel very little loyalty to this firm" was deleted. As shown in Table 1, after deletion of items, the Cronbach's alpha is improved. Thus, we can conclude that all variables used in this study met the reliability requirement.

Validity Tests

Table 2 shows construct validity analysis as reflected in loadings onto a single factor for the overall measures of ethical climate (Kaiser-Meyer-Olkin (KMO) ≥ 0.6 , factor variance > 0.6). In this study, construct validity analysis is carried out only on ethical climate, since this measurement is adapted from Cullen et al. (1993). On the other hand, other variables such as job satisfaction, organizational commitment, and turnover intention use established measurements where validity has been tested.

Face validity is also conducted to confirm whether the concept of ethical climate measures what it is intended to measure. This study obtained experts' judgments as to whether the measure of ethical climate captures a particular construct with sufficient breadth and depth. Three experts (managing partner and two audit senior associates) have correctly judged the concept and agreed that all items used to measure ethical climate are conceptually appropriate.

Table 2

Construct Validity Analysis

Variable	KMO ≥ 0.6	Factor variance $> 60\%$
Ethical climate	0.705	60.866

Mediation Tests

For mediating effect, three steps of multiple regressions recommended by Baron and Kenny (1986) were applied in order to test the effects of organizational commitment as a mediator on the relationship between job satisfaction and turnover intention.

As Baron and Kenny (1986) said:

To establish mediation, the following conditions must hold: First, the independent variable must affect the dependent variable in the first equation; second, the independent variable must be shown to affect the mediator in the second equation; and third, the mediator must affect the dependent variable in the third equation. If these conditions all hold in the predicted direction, then the effect of independent on the dependent variable must be less in the third equation than in the second equation. Perfect mediation holds if the independent variable has no effect when the mediator is controlled. (p. 1177)

Data Analysis and Discussion

Respondents' Demographic Information

The respondents in this study represent the population of Big Four external auditors in Malaysia's main offices. The majority of respondents are females (56.9%) followed by male respondents (43.1%). In terms of respondents' age, the majority of them fall between the age group of 25-29 years (46.1%) and 38.3% of them are within the age group of 20-24 years. Most of the respondents (77.8%) are single and 22.2% of them are married. Of the respondents, 52.1% hold a bachelor's degree and 40.7% of them hold professional qualifications. On the other hand, in terms of firm tenure, 59.9% of the respondents have served in the current firm for less than three years and 26.3% of them have served in the current firm for three to five years.

Descriptive Statistics for Independent and Dependent Variables

Table 3 presents the overall mean scores, standard deviation, and variance for these variables based on the data from self-rated 7-point Likert scale, where 1 indicates "strongly disagree", 4 signifies the mid-point value of the scale indicating indifference and neutrality, and 7 indicates "strongly agree". The results show that the mean score for ethical climate is higher than the mid-point value of the scale. This suggests that Malaysian external auditors are highly ethical, because they perceive and recognize the importance of firms' ethical climate of work environment towards performing their jobs. On the other hand, the mean scores for job satisfaction and organizational commitment only show a bit higher score than the mid-point value of the scale. This result suggests that Malaysian external auditors appear to be neutral on the aspect of their job satisfaction and organizational commitment, since the mean scores were not even above 4.5. In other words, this indicates that auditors neither agree nor disagree that they are fully satisfied with their jobs and committed to their firms. On the other hand, the mean scores for turnover intention are lower than the mid-point value of the scale. This suggests that Malaysian external auditors experience relatively low turnover intention.

Table 3

Descriptive Statistics for Ethical Climate, Job Satisfaction, Organizational Commitment, and Turnover Intention

	<i>N</i>	Range	Min.	Max.	Mean	S.D.	Variance
Ethical climate (low = 1; high = 7)	167	4.60	2.40	7.00	5.2575	0.85309	0.728
Job satisfaction (low = 1; high = 7)	167	6.00	1.00	7.00	4.4770	1.17109	1.371
Organizational commitment (low = 1; high = 7)	167	6.00	1.00	7.00	4.3443	1.07778	1.162
Turnover intention (low = 1; high = 7)	167	6.00	1.00	7.00	3.6447	1.70680	2.913
Valid <i>N</i> (listwise)	167						

Hierarchical Regression Analysis

This section analyzes the relationship among ethical climate, job satisfaction, organizational commitment, and external auditor's turnover intention. Using hierarchical regression (also called sequential), variables are

entered in steps, with each independent variable being assessed in terms of what it adds to the prediction of the dependent variable, after the previous variables are controlled for (Pallant, 2001). First, any confounding effects on turnover intention arising from control variables are considered. Age and gender are chosen as control variables. Using a hierarchical multiple regression approach, the first regression model enters only the control variables, whereas the second model enters the test variables. The third model enters the mediator variables. The results in Table 4 show that the adjusted R^2 value for Model 1 is only 0.3% and the model is not significant. Control variables in Model 1 have no confounding effects on external auditors' turnover intention. Therefore, no further analysis is carried out with respect to these control variables, because they do not cause a confounding effect on the dependent variable.

In Model 2 of Table 4, the inclusion of the variables ethical climate and job satisfaction gives the model significant explanatory power. Adjusted R^2 value in Model 2 is 35.3% and the model is significant. For Model 3, the inclusion of the mediator variable organizational commitment also gives the model significant explanatory power. Adjusted R^2 value in Model 3 is 40.8% and the model is significant. The coefficient results show that both job satisfaction and organizational commitment are significantly negatively related to turnover intention except ethical climate.

As cited by Umor (2009), for the variance inflation factor (VIF), the value should be less than 10 (Coakes & Steed, 2003). As presented in Table 4, the VIF value for all variables is less than 10. Therefore, no violation of multi-collinearity (relationship among the independent variables) was found in this study.

Table 4

The Effect of Control Variables, Ethical Climate, Job Satisfaction, and Organizational Commitment on Turnover Intention

Variable	Model 1			Model 2			Model 3		
	Beta	Sig.	VIF	Beta	Sig.	VIF	Beta	Sig.	VIF
Age	-0.001	0.987	1.002	0.039	0.538	1.010	0.034	0.576	1.011
Gender	0.122	0.116	1.002	0.083	0.190	1.007	0.073	0.228	1.009
Ethical climate				0.008	0.899	1.059	0.079	0.219	1.147
Job satisfaction				-0.599	0.000***	1.066	-0.338	0.000***	2.262
Organizational commitment							-0.373	0.000***	2.436
R^2 (%)	1.5			36.9			42.6		
Adjusted R^2 (%)	0.3			35.3			40.8		
Model sig. (p -value)	0.289 ns			1% level			1% level		

Note. *** indicates significant at the level of 1%.

Table 5

Results of Regression Analysis

Variable	Turnover intention-job satisfaction			Turnover intention-organizational commitment		
	Beta	Sig.	VIF	Beta	Sig.	VIF
Age	0.077	0.312	1.004	-0.026	0.622	1.006
Gender	-0.071	0.353	1.002	-0.020	0.699	1.006
Ethical climate	0.229	0.003***	1.003			
Job satisfaction				0.745	0.000***	1.009

Note. *** indicates significant at the level of 1%.

The results of regression analysis as in Table 5 show that ethical climate appeared to be significantly and positively related with job satisfaction. This result supports H1 which is consistent with prior studies (i.e., Schwegker, 2001; Jaramillo, Mulki, & Solomon, 2006). In contrast, as depicted in Model 2 of Table 4, ethical climate has been found not to be directly related with turnover intention. Thus, this regression result does not support H2. This current finding is similar to the study of Schwegker (2001) who found that ethical climate is not directly and is insignificantly related to turnover intention. Recent literature also found that employee's perception of business ethical value did not have a significant direct impact on their turnover intention (Jung, Namkung, & Yoon, 2010). But, this finding was not in line with the findings of Sims and Keon (1997) and Ulrich et al. (2007), as they reported that a positive ethical climate directly reduces employees' intentions to leave.

Both job satisfaction and organizational commitment as shown in Model 3 of Table 4 are significantly and negatively associated with turnover intention. This result supports H4 and H5. For the association between job satisfaction and turnover intention, this result lends support to previous auditing literatures (Kalbers & Cenker, 2007; Harrell et al., 1986). While in the context of Malaysian public accounting firms, this present finding further proved the study of Hasin and Omar (2007) who found that job satisfaction among audit staff was significantly related to their intentions to leave their jobs. On the other hand, for the relationship between organizational commitment and turnover intention, Kalbers and Cenker (2007) similarly found that auditors with more affection for their organizations are less inclined to leave their organizations.

As job satisfaction stated in Table 5 has been revealed to be significantly and positively related with organizational commitment, H3 is supported. Suliman (2002) also documented a similar result between the two variables. For the mediation effects, it is shown that organizational commitment as in Model 3 of Table 4 partially mediates the relationship between job satisfaction and turnover intention. This is because that the relationship between job satisfaction and turnover intention is still significant even after the inclusion of organizational commitment as a mediator. Prior studies of Shore and Martin (1989) and Davy et al. (1991) also identified organizational commitment as a mediator between job satisfaction and turnover intention.

Conclusions

Due to excessive employee turnover, this study has concentrated on the issue of external auditor's turnover intention in Malaysia Big Four audit firms. The present study has added to the existing literature on external auditor's studies for the relationship among ethical climate, job satisfaction, organizational commitment, and turnover intention due to a lack of studies for this relationship. Thus, external audit literature will be extended by hypothesizing and providing evidence about the effects of ethical climate, job satisfaction, and organizational commitment on external auditor's turnover intention.

This study also fills the gap by adding organizational commitment variable as a mediator that affects the relationship between job satisfaction and external auditor's turnover intention. Besides that, the compliance of external auditors in terms of firms' ethical climate in this present study is investigated from the perspective of principled dimension rather than egoism and benevolence dimensions, because people of this group are considered as professional employees. This study has been able to develop new scales to measure the concepts of ethical climate particularly for principled dimension, by adapting the measurement originated by Cullen et al. (1993) in the context of Malaysian external auditing environment.

The link between organizational ethics, such as ethical climate and job satisfaction, is argued from Koh and Boo's (2001) cognitive dissonance theory. Overall, the findings of this study are consistent with the findings reported in prior studies. All hypotheses for this study are supported except for H2, i.e., the association between ethical climate and turnover intention. The results indicate that organization's ethical climate affects individual's job satisfaction and subsequently, this job-related outcome as well as organizational commitment were identified as significant contributors in explaining turnover intention. The findings of the present study are very helpful to human resource management, mainly in auditing, as they are responsible for managing, training, and educating today's diverse workforce. Furthermore, the result of this study would help management as well as policy makers to formulate retention policies, employment strategies, and improvement programmes by taking into consideration the predictors of auditors' intentions to leave in order to improve professional practices as well as to ensure efficiency, effectiveness, and high productivity in firms.

Directions for further research are suggested as follows:

(1) Another important variable that will contribute to turnover intention either directly or indirectly should also be considered in the future (such as the effect of the role of stress and the role of overload) to validate the findings, as this may report different results;

(2) Increasing the sample size to a wider population such as including external auditors in other sized audit firms so that the results can be generalized, a better representation of the analysis can be obtained, and the explanatory power of the results may be improved;

(3) Instead of using questionnaires, future research may necessitate the use of a combination of quantitative and qualitative research techniques, e.g., an in-depth study over a period of time or even face-to-face interviews in order to derive more reliable results;

(4) Considering the other elements of ethical climate instead of only focusing on principle-based dimension. Victor and Cullen (1988) suggested that ethical climate can also be proposed in terms of law and code, caring, instrumental, and independence dimensions.

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Appendix: Confidential When Completed

Section 1: Ethical Climate

Using the scale below, please circle the number that corresponds best to your answer.

	From strongly disagree (1) to strongly agree (7)						
Compliance with firm's rules and procedures is very important in my firm.	1	2	3	4	5	6	7
Employees in my firm are not expected to stick to firm policies strictly.	1	2	3	4	5	6	7
People who do not follow firm's rules and procedures are not viewed favorably in my firm.	1	2	3	4	5	6	7
My firm does not emphasize the importance of its rules, procedures, and policies.	1	2	3	4	5	6	7
My firm will punish unethical behavior.	1	2	3	4	5	6	7
My firm will reward ethical behavior.	1	2	3	4	5	6	7
Compliance with MIA by-laws is very important in my firm.	1	2	3	4	5	6	7

Section 2: Global Job Satisfaction

Using the scale below, please circle the number that corresponds best to your answer.

	From strongly disagree (1) to strongly agree (7)						
Overall, I am pleased with my work.	1	2	3	4	5	6	7
Overall, I am satisfied in my current practice.	1	2	3	4	5	6	7
My current work situation is a major source of frustration in my life.	1	2	3	4	5	6	7
My work in audit practice has not met my expectations.	1	2	3	4	5	6	7

Section 3: Organizational Commitment

Using the scale below, please circle the number that corresponds best to your answer.

	From strongly disagree (1) to strongly agree (7)						
I would accept almost any type of audit work in order to keep working for this firm.	1	2	3	4	5	6	7
I feel very little loyalty to this firm.	1	2	3	4	5	6	7
I am proud to tell others that I am part of this firm.	1	2	3	4	5	6	7
I talk up this firm to my friends as a great firm to work for.	1	2	3	4	5	6	7
It would take very little change in my present circumstances to cause me to leave this firm.	1	2	3	4	5	6	7

Section 4: Intention to Leave

Using the scale below, please circle the number that corresponds best to your answer.

	From strongly disagree (1) to strongly agree (7)						
Presently, I am actively searching for other jobs.	1	2	3	4	5	6	7
In the last few months, I have seriously thought about looking for a new job.	1	2	3	4	5	6	7
I intend to leave the firm in the near future.	1	2	3	4	5	6	7

Section 5: Demographic Information

Kindly answer all questions by ticking (✓) the appropriate answer.

1. What is your age?

- 20-24 years old
 25-29 years old
 30-35 years old
 36-39 years old
 40-44 years old
 45 years old and above

2. What is your gender?

- Female
 Male

3. What is your education level?

- Secondary
 Diploma
 Degree
 Post graduate
 Professional (Association of Chartered Certified Accountants (ACCA), Chartered Institute of Management Accountants (CIMA), Malaysian Institute of Certified Public Accountants (MICPA), etc.)

4. What is your marital status?

- Single
 Married

5. How long have you worked in your current organization?

- Less than 3 years
 3 to 5 years
 6 to 10 years
 More than 10 years