

# The Impact of Authentic Leadership, Corporate Ethical Values, Employee

*by* The Impact Of Authentic Leadership, Corporate Ethical Values, Employee The Impact Of Authentic Leadership, Corporate Ethical Values, Employee

---

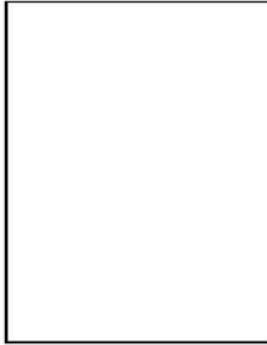
**Submission date:** 09-Apr-2018 06:28PM (UTC+0700)

**Submission ID:** 943552441

**File name:** t\_of\_Authentic\_Leadership,\_Corporate\_Ethical\_Values,\_Employee.doc (1.08M)

**Word count:** 6367

**Character count:** 37240



## International Journal of Economic Research

ISSN : 0972-9380

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 14 • Number 9 • 2017

## The Impact of Authentic Leadership, Corporate Ethical Values, Employee Incentives and Workload/Task Complexity on Dysfunctional Auditor Behavior

M Ardiansyah Syam<sup>1</sup>, Imam Ghozali<sup>2</sup>, Tarmizi Achmad<sup>2</sup> and Faisal<sup>2</sup>

<sup>1</sup> Ph.D Student at Faculty of Business and Economics, Diponegoro University, E-mail: [ardiansyah.2013.16@gmail.com](mailto:ardiansyah.2013.16@gmail.com)

<sup>2</sup> Faculty of Business and Economics, Diponegoro University Semarang Indonesia, E-mail: [ghozali\\_imam@yahoo.com](mailto:ghozali_imam@yahoo.com)

**Abstract:** This study is intended to explore the effect of authentic leadership, corporate ethical values, employee incentives and workload/task complexity on dysfunctional auditor behavior. The model was extended model developed by Morris (2014). This study proposes the employee incentives as moderating variable, while workload/task complexity as control variable. The data gathered from public accounting firm in Indonesia especially senior auditor. There were 124 respondents. The data was processed using Structural Equation Model (SEM) - SmartPLS 2.0. The result of the study shows that authentic leadership has negatively non-significant effect on dysfunctional auditor behavior. But, when moderated by employee incentives, the effect was negatively significant as being hypothesized. The authentic leadership has positive significant effect on corporate ethical values. The corporate ethical values has a negative significant effect on dysfunctional auditor behavior directly or when being moderated by employee incentives. The employee's incentive has a negative significant effect on dysfunctional auditor behavior. The authentic leadership and corporate ethical values show, negatively, bigger and more significant effect when moderated by employee incentives. For future research, supervisory during audit process can be added as moderating variable.

**Key Words:** Authentic Leadership, Corporate Ethical Values, Employee Incentives, Workload/Task Complexity and Dysfunctional Auditor Behavior

### INTRODUCTION

The audit report is a critical output of an audit engagement. In the audit report, auditors communicate their findings to investors and public. The existing format of the audit report identifies which financial statements were audited, describes the nature of an audit, and includes the auditor's opinion as to whether

the financial statements present fairly or not, in all material aspects, the financial position, results of operations, and cash flows of the client company.

The quality of the opinion provided by audit firms is an important determinant of their long-term survival (Paino *et al.*, 2010). The qualified audit report is difficult to gauge. It makes particularly sensitive to the behavior of the individuals who carry on audit work (auditor). This study seeks to identify the incidence of Dysfunctional Audit Behaviors indicated by under-reporting of time (URT), premature sign-off (PSO), and time and budget pressure (TBP). Dysfunctional Audit Behaviors refers to Audit Quality Reduction Behaviors, actions taken by an auditor during the engagement that reduces evidence-gathering effectiveness.

Auditors generally perceive that their performance evaluation and career advancement in an audit firm are strongly related to their ability to complete an audit assignment on time and within the budget. At the same time, they are also expected to accomplish audit tasks to enable the formulation of an opinion in accordance with relevance auditing standards and procedures. The results of a number studies show that time budgets are difficult to attain and this can affect audit quality (Kelley and Margheim, 1990; Dalton and Kelley, 1997).

This study is intended to bridge some theoretical gaps in dysfunctional auditor behavior (DAB). Psychologically, the auditor may be pressured by clients to not follow the audit standards and procedures, for example, reducing the stages of the procedure and timing of the audit, objection, deletion of the value of certain accounts, refusal of disclosure of fraud and opinion request. Previous empirical research in dysfunctional auditor behavior was stressed on the relationship among authentic leadership (AL), corporate ethical values (CEV), personal ethical position (PEP), and dysfunctional auditor behavior (DAB) (Morris, 2014).

Little empirical evidence exists, however, about audit firm cultures, and there is even less research on how leadership and firm culture impacts audit quality. Most firm leaders exhibit high levels of the constructs (transparency, ethical perspective, self-awareness, balanced processing) comprising authentic leadership. Further, firm cultures were perceived to be highly ethical. These measures of authentic leadership and ethical organizational culture were found to be negatively correlated, at a statistically significant level, with in-charge auditors' perceptions of the frequency of dysfunctional auditor behavior. In his research finding, Morris (2014) suggest that when subordinates perceive their leadership as authentic and view themselves as part of an ethical firm culture, a decline in the frequency of dysfunctional auditor behavior follows.

The dysfunctional auditor behavior could vary because of different levels of moral intensity of auditors (Coram *et al.*, 2004). Paino *et al.*(2014) stated about behaviors that directly affect audit quality include premature signing-off of audit steps without completion of the procedure (Otley and Pierce, 1995); gathering of insufficient evidential materials (Alderman and Deitrick, 1982), processing inaccuracy (McDaniel, 1990), and the omission of audit steps (Margheim and Pany, 1986). Underreporting of audit time has also been shown to have an indirect impact on audit quality (Smith, 1995; Kelley and Margheim, 1990). Underreporting time leads to poor personnel decisions, obscure the need for budget revisions, and result in unrecognized time pressures on future audits (Donnelly *et al.*, 2003).

The extensive control and regulation system in audit procedures will lead to unrest auditor and tend to increase dysfunctional audit behavior or behavior that does not comply with audit procedures. Dysfunctional audit behavior of the auditors performed through the manipulation of data or evidence,

fraud, and deviation from the applicable audit standards. This can affect the results of the audit quality, either directly or indirectly. Dysfunctional audit behaviors can be indicated by the incidence of premature sign off and altering or replacing audit procedures that led to a lack of evidence obtained (insufficient evidence), which is less accurate audit report, audit trails as well as errors. Moreover, underreporting of time (URT) can also be the cause of the time pressure in the subsequent audit process. Yuen *et al.*(2012) proposed that there is a positive relationship between task complexity and the acceptance of dysfunctional auditing behavior. In this study, the workload or task complexity is used as control variable.

This study is extended research, modifying research model developed by Morris (2014) through the theoretical study of the underlying constructs and dimensions. Morris (2014) states that authentic leadership moderated by corporate ethical values (Public Accounting Firm ethical values) influence on the dysfunctional audit behavior although it is still showed inconsistent results. This research develops a theoretical model of the impact of authentic leadership (AL) towards the culture of ethic of Public Accounting Firm (CEV) and Dysfunctional Auditor Behavior (DAB) moderated by employee incentives (EI) and controlled by workload or task complexity of audit process (WL).

## REVIEW OF LITERATURE

### Authentic Leadership

The ethical nature of leader behavior in auditing is an important area of research, given the profession's two-master structure: auditing firms are hired by clients and paid by clients, but the firms are responsible for performing their duties in the interest of the stakeholder and public. As such, audit firm leaders are faced with looking out for the best interests of the audit firm while balancing the interests of both their clients (who pay for and retain their services) and the public they are engaged to protect. Thus, this study examined the audit seniors' perceptions of their leaders through an ethics-based framework: that of the authentic leader.

Otley and Pierce (1996) concluded that audit firms can influence the behavior of its staff through hiring, training and retaining managers and partners who exhibit considerate and supporting leader behavior. Yukl (2002) notes that leadership is a process of social interaction—the interaction between leader and follower—and this study is based on the followers' (in this case, the audit seniors') perceptions of their leaders. Avolio, Gardner, Walumbwa, Luthans, and May (2004) assert that authentic leaders know who they are, know what they believe and value, and act upon this knowledge while maintaining a transparency with others. The extent to which these leaders are transparent and the followers believe that they can see the real leader will, according to authentic leadership theory, impact the relationship between the the leader and follower.

Considering the relational aspects of authentic leadership, Chan *et al.*(2005) assert that it is not possible to be authentically immoral. Cooper *et al.*(2005) note that the developers of authentic leadership appear to have a normative goal in mind; they want to train and develop leaders who will proactively foster positive environments and conduct business in an ethical, socially responsible manner. If this construct of the theory is accurate, it is precisely the model against which we should be measuring auditing firm leadership.

Gardner, *et al.* (2005) indicate that the recent ethical problems in business are indicative of the willingness of people to misplace their trust in untrustworthy leaders. They also theorized and empirically researched

the idea, though, that there are also lower profile but genuine leaders who lead by example in fostering healthy ethical climates characterized by transparency, trust, integrity, and high moral standards and these authentic leaders are both true to themselves and lead others to also achieve authenticity. Gardner *et al.*(2005) hypothesized that through the development of such authentic leaders and authentic followers, positive ethical climates can be created.

Walumbwa, *et al.*(2008) provide a definition of authentic leadership which more fully reflects the underlying dimensions of the construct: Specifically, we define authentic leadership as a pattern of leader behavior that draws upon and promotes both positive psychological capacities and a positive ethical climate, to foster greater self-awareness, an internalized moral perspective, balanced processing of information, and relational transparency on the part of leaders working with followers, fostering positive self-development.

### CORPORATE ETHICAL VALUES

Schein (2004) further asserts that the leader is responsible for external boundary management which is essential to survival. To implement this management, the organization must have a mission, a strategy and a means of implementing the goals derived from that strategy. The leader, according to Schein, must have some measurement standard to use to assess how well the organization achieves its goals, and finally, must have some way of correcting or repairing strategies if goals are not being met. Given the need for auditors to act in a moral and ethical manner as they engage in the audit process, the firms' leaders should be exemplifying the moral and ethical standards that would promote a goal of quality audits—and makes this the basis for the firm's organizational culture.

Pimentel *et al.* (2010) emphasize the presence of novel situations that require the delineation of unique courses of action. In addition, changes in the workforce composition, organizational culture, and emphasis on social responsibility enlarge the scope of decision options and create dilemma situations. Hence, the decision-makers' ability to recognize that a particular situation may represent an ethical dilemma is critical to the success of organizations. Organizational characteristics and the alignment between organizational systems, the legal environment, and other extra-organizational factors (i.e. ethical capability) determine the extent to which decision makers are able to recognize a situation as an ethical dilemma.

### EMPLOYEE INCENTIVES

Goodman (1995) explains that the employee incentive is given to the auditor in an audit team based on differences in achievement. The employee incentive, negatively, affect audit dysfunctional behavior. This is a basic point of view that employee incentives proposed to be a moderating variable in the designed model. The higher the employee incentives the lower the incidence of dysfunctional auditor behavior.

A company has a different way to encourage employees to improve employee performance to get maximum results. One way is by offering incentives to employees. Incentives are aimed to motivate employees in the form of material, given with the intent to cause the urge to improve employee performance (Dou, 2003). Employee incentives is an appreciation given to the employee who performs well in accordance with the target or exceeded the target in a predetermined period of time.

Previous studies have found that the presence of extrinsic motivation (incentive performance) able to increase the influence of intrinsic motivation in performance. Performance incentives often used by the

public accounting firm in an effort to increase the motivation of auditor. Incentives are often used to improve the performance of the Public Accounting Firm as a whole. Performance incentives most often used is the financial and nonfinancial incentives. Motivation is one of the important components in performance, according to Puspitasari and Utomo (2011) explain that motivation is one of the five factors that exist that affect the quality and quantity of performance. Agency theory explains that in order to achieve the objectives of the Public Accounting firm, it is necessary to have an incentive to motivate auditor.

### **Work Load (Task Complexity)**

The audit process can be a problematic when faced with the complexity of the task (Barlev and Haddad, 2004; Copeland, 2005; Maines and Wahlen, 2006; Robert and Jones, 2009) . A good example of how complex the audit process is the Enron scandal, which was considered as one of the biggest audit failure in history (Barlev and Haddad, 2004). The failure itself not only because of the difficulties in auditing the complexity of estimation and accounting numbers, but there are other things that add to the problem (Yuen, 2012), namely the complexity of the task.

Holthausen and Watts (2001) explained the importance to more focus on the variables that affect accounting and how it is performed, not only on the level of the accounting literature. Holthausen and Watts (2001) discuss literature and research on the value-relevance and its implications for standard setting and accounting. In the determination of investment securities held by the bank and the fair market value clearly proves that there is no descriptive theory of accounting and standard setting. This problem may have been present during the Enron scandal where in accordance with the opinion of Barlev and Haddad (2004) required the use of double historical cost accounting and fair value accounting due to the slow development of a new accounting paradigm.

Barth (2006) explains that the fair market value is more often used in the organization. The fair value measurement should be accurate when its reflect market values, but when the future arrangements were made and included in the financial statements, there is always some uncertainty. Moreover, frequent use will also expand FVM auditor challenges have to deal when auditing the financial statements. Barth (2006) meant that these estimates can be done in various ways, considering different factors, which lead to some values may not be recognized and taken into account. Davies *et al.* (1994) demonstrated through experiments based on information that seems too confidence in the information used to produce the estimations.

The complexity of audit work can also affect the possibility of the auditors engaged in adverse behaviors. Prahbu (1987) proposed a grading task according to a number of criteria that serve as a rough measures of cognitive complexity. Several factors, including the auditor's familiarity with the client's business operations, the task complexity. Clients may have diversified production lines, numerous subsidiaries and complex organizational structure. Some scholars have examined the relationship between the complexity of the task and the behavior of the auditor. Benford (2000) noted that the level of complexity of the audit task can impose a heavy mental workload on individual decision makers. The layering task and complexity of technology can impose mental workload and reduce the quality of the results, as decision-makers using a simplified technique. Therefore, the increase in workload can result audit mis-judgment is significant, and the auditor can release tension through dysfunctional behavior.

### Dysfunctional Audit Behavior

Certain actions of auditors that allow for the opportunity for a substandard audit have been termed as dysfunctional auditor behaviors (DAB) (Donnelly *et al.*, 2003). It is also referred to as reduced audit quality behavior (Coram *et al.*, 2003), reduced audit quality practices (RAQP), (Malone and Roberts, 1996) or irregular auditing practices (Willett and Page (1996). These dysfunctional audit behaviors has been summarized by Gundry (2006) as comprising the actions of prematurely signing off an audit program step, making a superficial review of client's documents, failing to properly research an accounting principle, failing to pursue a questionable item in the audit, rejecting an awkward item in a sample and accepting weak client explanations. As a result of DAB, the audit process fails to accumulate adequate and reliable audit evidence. This, in turn, could lead to an ineffective audit as the auditor may reach a wrong conclusion without adequate and reliable audit evidence. Prior studies have documented the types and extent of dysfunctional auditor behaviors among auditors at various levels and in several countries for example Herrbach (2001), Coram *et al.* (2003), Gundry (2006) and Paino *et al.* (2011). Nazli *et al.* (2010) found that more than 70% of auditors surveyed committed at least once dysfunctional auditor behaviors acts throughout their career.

- (a) **Premature Sign Off:** Otley and Pierce (1996) define premature sign-off as the act of declaring that the required audit procedures were performed when it was not performed completely or omitting the procedure altogether. Margheim *et al.* (1986) disclosed that approximately 60% of responding CPA's did admit premature signing off as a result of time constraints. Willett and Page (1996) found that only 22 percent of the finalists taking the Institute of Chartered Accountants test in England and Wales stated that they had never participated in speeding up of audit testing by irregular methods and Coram *et al.* (2003) found that almost two-thirds of Australian respondents had "sometimes" performed reduced audit quality practices.
- (b) **Time Budget Pressure:** Ability to meet budgeted time has been considered a very important factor in evaluating performance and affecting promotion prospects of auditors (Otley and Pierce, 1996; Soobaroyen and Chengabroyan, 2006). These studies have shown that time budget pressure has been increasing over time. Otley and Pierce (1996) found a link between pressures created by audit control systems and dysfunctional audit behavior. They provided evidence that contextual variable, such as budget attainability led to dysfunctional audit behavior, as opposed to just pressure to meet budget. Auditing is a business and the audit business has been facing sustained audit fee pressures. The audit, therefore, has to be tightly controlled to ensure that resources spent on the job are adequate to meet planned level of audit risk making audit time budget more stringent.

The Panel's Report (Public Oversight Board 2000) suggests that time pressures associated with audit budgets, client-imposed, and internal deadlines, and unexpected staff turnover are placing significant pressures on audit engagement teams. These pressures can result in reduced audit quality, especially in situations where individual performance is measured primarily by meeting time deadlines and budget estimates. A survey of Big Six audit seniors confirms these concerns. Eighty-nine percent of the respondents admitted to engaging in some form of audit quality reduction behavior (e.g., premature sign-off) and estimated that time underreported was equal to approximately 12.2 percent of hours accurately recorded (Otley and Pierce 1995).

Based on their findings, the Panel recommended that managing the potential risks from excessive time pressures on audit teams must be a high priority for audit firms. It also recommended that firms assess the extent of time pressures on the audit engagements and the firm's success in managing those pressures. Finally, the Panel urged firms to provide guidance and training on actions that engagement partners and other supervisory personnel should consider in managing time pressures.

These concerns have not been ignored in the academic literature. The underlying premise of much academic research has been that DAB is a dysfunctional reaction to the environment (i.e., the control system). These behaviors can, in turn, have both direct and indirect impacts on audit quality. Behaviors that directly affect audit quality include premature signing-off of audit steps without completion of the procedure (Otley and Pierce 1995; Rhode 1978; Alderman and Deitrick 1978), gathering of insufficient evidential materials (Alderman and Deitrick 1982), processing inaccuracy (McDaniel 1990), and the omission of audit steps (Margheim and Pany 1986).

- (c) **Under-reporting Time:** Underreporting of audit time has also been shown to have an indirect impact on audit quality (Smith 1995; Kelley and Margheim 1990; Lightner *et al.* 1982). Underreporting time leads to poor personnel decisions, obscures the need for budget revision, and results in unrecognized time pressures on future audits. Under-reporting time is a common ethical dilemma among auditors and has several detrimental consequences for public accounting firms (Pickerd, Summers, and Wood 2015). Underreporting time can impact audit fee negotiations with clients, distort time budgets for subsequent years' audits, and cloud assessments of audit effectiveness (Akers, Horngren, and Eaton 1998). Although audit firm policies prohibit auditors from misreporting hours (Sweeney and Pierce 2006), auditors often have incentives to underreport time including the potential for more favorable performance evaluations (Anderson-Gough, Grey, and Robson 2001).

Indeed, underreporting time is ubiquitous in public accounting firms (Church 2014; Pickerd et.al, 2015). Given the negative effects of underreporting on audit firms and the profession, it is important to consider factors that may influence auditors' acceptance of

budget and time pressure. Several academic studies have also examined the impact that time pressure on dysfunctional behavior (Margheim and Pany 1986; Alderman and Deitrick 1978, 1982). Kelley and Margheim (1990) examined the moderating effects of the interaction between supervisor leadership style and auditor personality. Otley and Pierce (1995) extend this work by examining the moderating effects of audit manager's leadership style on the behavior of senior auditors. These studies suggest that an optimal supervisor-subordinate can reduce dysfunctional reactions to control systems.

## **HYPOTHESIS DEVELOPMENT**

As shown in the conceptual framework, this study is intended to explore the effect of authentic leadership, corporate ethical values, employee incentives and task complexity on dysfunctional auditor behavior. Based on the conceptual framework, the proposed hypothesis was based on theories and previous researches.

Yukl (2002) notes that leadership is a process of social interaction—the interaction between leader and follower—and this study is based on the followers' (in this case, the audit seniors') perceptions of their

**Figure 1: Conceptual Framework**

leaders. Avolio, Gardner, Walumbwa, Luthans, and May (2004) assert that authentic leaders know who they are, know what they believe and value, and act upon this knowledge while maintaining a transparency with others. Schein (2004) explained that the leader is responsible in maintaining the viability of the company to be cultured and ethical.

Considering the relational aspect of Authentic Leadership Theory (ALT), Chan, *et al.* (2005) confirms that it was impossible for authentic leader is perceived to be immoral. Cooper *et al.* (2005) stated that the developers of Authentic Leadership Theory (ALT) seems to have a normative goal in mind; and develop a proactive leader will foster a positive environment and conducting business in a manner that is socially responsible “ethical”. Authentic leadership is one of the leadership style which is much more discussed by academics (Walumbwa *et al.*, 2008). Morris (2014) found that authentic leadership has a positive impact on the corporate ethical values and has a negative significant effect on dysfunctional audit behavior.

H1: Authentic Leadership has a positive significant effect on Corporate Ethical Values.

Morris (2014) suggested that authentic leadership has a positive effect on corporate ethical values. Authentic Leadership has a negative effect on dysfunctional audit behavior moderated by corporate ethical values. This study shows that when a subordinate considers authentic leadership as part of the corporate culture can decrease the frequency of dysfunctional auditor behavior. The hypothesis is stated as follows:

H2: Authentic Leadership has a negative significant effect on Dysfunctional Auditor Behavior.

Franquiz (2004) explained that incentives are intended to stimulate or encourage auditors to raise the spirit in improving the productivity. Jensen & Luthans (2006) found that employee perception of the behavior of an authentic leader is the strongest predictor of employee job satisfaction and organizational commitment. Laschinger, Wong & Grau (2012) found that authentic leadership has a direct negative effect on workplace bullying and has a positive effect on job satisfaction. The hypothesis is stated as follows:

H3: Authentic Leadership has a positive significant effect on Employee Incentives.

Svanberg and Peter (2013) states that the ethical culture of the organization has been regarded as one of the important determinants of unethical behavior in organizations. Previously, the audit field studies show that the decision made by the auditor can greatly influenced by the audit firm ethical culture. Morris (2014) found that ethical organizational culture negatively correlated with the perception of the auditor to the frequency of dysfunctional auditor behavior. The hypothesis is stated as follows:

H4: Corporate Ethical Values has a negative significant effect on Dysfunctional Auditor Behavior.

H5: Corporate Ethical Values has a positive significant effect on Employee Incentives.

Goodman (1995) explains that the incentive is given to the auditor in an audit team based on differences in achievement in the work and negatively affect audit dysfunctional behavior. In this research, we accommodated the idea of using employee incentive in the model. The hypothesis is stated as follows:

H6: Employee Incentives has a negative significant effect on Dysfunctional Auditor Behavior.

In this research, we propose employee incentives as a moderating variable on the effect of authentic leadership and corporate ethical values toward dysfunctional auditor behavior. The hypothesis is stated as follows:

H7: Authentic Leadership has a negative significant effect on Dysfunctional Auditor Behavior moderated by Employee Incentives.

H8: Corporate Ethical Values has a negative significant effect on Dysfunctional Auditor Behavior moderated by Employee Incentives.

## METHODOLOGY

### Data Collection

The data was collected from senior auditor of Public Accounting Firm in Indonesia. Questionnaires were sent to 150 respondents and 130 returned the questionnaire, and 124 questionnaires were fulfilled and used for the analysis.

**Table 1**  
**Descriptive Statistics of Respondents**

<i>Type of Accounting Firm</i>	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Non-Big Four	120	96.8	96.8	96.8
Professionals	4	3.2	3.2	100.0
Total	124	100.0	100.0	
<i>Age of Respondents</i>	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
<25 Years	29	23.4	23.4	23.4
26 – 30 Years	37	29.8	29.8	53.2
31 – 35 Years	34	27.4	27.4	80.6
36 – 40 Years	13	10.5	10.5	91.1
> 40 Years	11	8.9	8.9	100.0
Total	124	100.0	100.0	

<i>Gender of Respondents</i>	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Male	73	57.3	57.3	57.3
Female	53	42.7	42.7	100.0
Total	124	100.0	100.0	

<i>Education of Respondents</i>	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Undergraduates (S1)	102	82.3	82.3	82.3
Post Graduates	22	17.7	17.7	100.0
Total	124	100.0	100.0	

<i>Position of Respondents</i>	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Team Leader	32	25.8	25.8	25.8
Senior Auditor	79	63.7	63.7	89.5
Junior Auditor	13	10.5	10.5	100.0
Total	124	100.0	100.0	

## Measures

Authentic leadership was measured using modified the recently developed and validated Authentic Leadership Questionnaire (ALQ) (Avolio, *et al.*2007; Walumbwa *et al.*, 2008) . Organizational Ethical Culture was measured by using Hunt, Chonko and Wood's (1989) Corporate Ethical Values Scale (CEV). Frequency of DAB was measured by responses to questions and vignettes created for this study based on conversations with practicing auditors and prior research instruments used by Kelley and Margheim (1990). Employee incentive was measured using modified questionnaire developed by Firmandari (2014). Workload or Task Complexity was assessed from Jiambalvo and Pratt, (1982). All questionnaires were measured using 5 Point Likert Scale.

## ANALYSIS AND INTERPRETATION OF DATA

### Data Analysis

Path analysis using Partial Least Square (PLS) was used to evaluate the proposed hypotheses. Path analysis, rather than moderated regression analysis (MRA) or ANOVA, was used because the theoretical model presented in this study is viewed as an antecedent framework for DAB. PLS can be defined as a constrained form of component modeling, whereas conventional SEM analysis such as AMOS or LISREL can be seen as modeling with common factors.

### Research Finding

The conduction of PLS analysis involves a two-step procedures. The first step is to evaluate a measurement model for each latent construct. This first step assesses the validity and reliability of the measures. The second step is to conduct a path analysis. In PLS analysis, Chin, Marcolin and Newsted (2003) advise that the adequacy of the measures is assessed by evaluating three components; (1) the reliability of the individual items, (2) the internal consistency of the items measuring the same latent construct, and (3) the discriminant validity of the construct.

The reliability of the individual items is assessed by examining the loading of the items on their corresponding construct. Cronbach Alpha is the most common method used to assess measurement reliability. The measure for internal consistency is assessed by Composite reliability (CR) with the desired value of above 0.7. The last indicator is the average variance extracted (AVE) . It simply refers to how much the items explain the variance of the construct. The desired value for AVE is above 0.5.

**Table 2**  
**Reliability, Internal Consistency and Average Variance Extracted**

	<i>AVE</i>	<i>Composite Reliability</i>	<i>R Square</i>	<i>Cronbachs Alpha</i>	<i>Communality</i>	<i>Redundancy</i>
Authentic Leadership	0.68649	0.91495		0.88129	0.68649	
Culture Firm Ethics	0.61923	0.89008	0.44924	0.84497	0.61923	0.27500
Dysfunctional Audit Behavior	0.48287	0.72847	0.15060	0.51152	0.48287	(0.02803)
Employee Incentives	0.62480	0.89128	0.38922	0.84541	0.62480	0.15808
Work Load	0.59574	0.875510	0.41280	0.81882	0.59574	0.18361

The Cronbach Alpha for DAB is 0.51, and the AVE is 0.48 with their individual item’s loadings ranging from 0.54 to 0.88. The Cronbach Alpha for authentic leadership consideration is 0.88, and the AVE is 0.67. Their individual item’s loadings were from 0.61 to 0.93. The Cronbach Alpha for Corporate Ethical Values is 0.84, and the AVE is 0.62 with their individual item’s loading ranging from 0.76 to 0.86.

PLS path analysis uses similar indicator to regression analysis to interpret results. R-square (R<sup>2</sup>) have values ranging from 0- 1. The higher value indicates that the model explains more variance. The size of path coefficients, beta coefficients, refers to the strength of the relationship between independent and

**Figure 2: Path Coefficients of the Research Model**

2 dependent variable. The significance of the path, t-values, indicates if a particular path is statistically significant. PLS uses bootstrapping method to calculate t-values. In statistics, bootstrapping is a method for estimating the sampling distribution of an estimator by re-sampling with replacement from the original sample.

An indicator is valid if it has a loading factor above 0.5 to the respective construt. Below are standardized parameter estimates that connect to each latent variable with its indicators. Furthermore, reflective indicators were tested using cross loading discriminant validity. The result is described in the following table.

**Table 3**  
**Cross Loading Factors of The Constructs**

	Authentic Leadership	Culture Firm Ethics	Employee Incentives	Work Load/ Task Complexity	Dysfunctional Audit Behavior
X1.1	0.849556	0.557956	0.546861	0.535063	-0.210086
X1.2	0.863319	0.558353	0.471606	0.518472	-0.132202
X1.3	0.926326	0.632847	0.540958	0.509071	-0.227540
X1.4	0.857653	0.574099	0.453632	0.490626	-0.068373
X1.5	0.609706	0.438294	0.258491	0.356734	-0.029473
X2.1	0.530105	0.705841	0.495689	0.371563	-0.224290
X2.2	0.493483	0.786793	0.427327	0.36091	-0.320041
X2.3	0.566537	0.816442	0.504377	0.360481	-0.234121
X2.4	0.572658	0.856167	0.432266	0.339661	-0.239251
X2.5	0.457306	0.761106	0.399152	0.292961	-0.171019
Y1.1	0.486247	0.473299	0.796767	0.484945	-0.273787
Y1.2	0.517699	0.501843	0.879402	0.473039	-0.368782
Y1.3	0.341595	0.403579	0.805696	0.387841	-0.332413
Y1.4	0.452619	0.462053	0.842747	0.467448	-0.319752
Y1.5	0.409034	0.450123	0.597024	0.314669	-0.009569
Y2.1	0.087414	0.026897	0.210734	0.424965	-0.135403
Y2.2	0.571691	0.436952	0.501559	0.854399	-0.188634
Y2.3	0.45676	0.343604	0.452909	0.878226	-0.098249
Y2.4	0.519665	0.384419	0.433112	0.865374	-0.147892
Y2.5	0.453997	0.355298	0.437828	0.740221	0.006014
Y3.1	-0.110084	-0.192488	-0.046988	-0.012650	0.539066
Y3.2	-0.247963	-0.327884	-0.362892	-0.200897	0.875830
Y3.3	0.069819	-0.070198	-0.189915	0.006415	0.625251

Besides, an indicator is valid if the discriminant validity shows the highest loading factor on the respective construct compared to other constructs. Thus, the indicators of latent constructs have better prediction than other construct

The  $t_{\text{statistic}}$  or  $t_{\text{value}}$  of the indicators of each constructs: authentic leadership, corporate ethical values, employee incentives, workload/task complexity and dysfunctional auditor behavior are shown in the table.

Statistically, an indicators has reflective ability to proxy the latent variable (indicate the respective construct) as stated in loading factor. The indicator are significant if the  $t_{\text{statistic}}$  are above 1.96. (T Statistic). Based on the above table, most of indicators have  $t_{\text{statistic}}$  above 1.96. It mean that there are no mis-specification of the usage of indicators in building a construct.

**Table 4**  
**The Outer Loading Factors and Significance Test (t<sub>value</sub>)**

Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)		T Statistics ( O/STERR )
X1.1 <- Authentic Leadership	0.264323	0.265441	0.016788	0.016788	15.744491
X1.2 <- Authentic Leadership	0.247631	0.248179	0.012282	0.012282	20.161833
X1.3 <- Authentic Leadership	0.273199	0.272817	0.013134	0.013134	20.801278
X1.4 <- Authentic Leadership	0.240749	0.241904	0.012611	0.012611	19.090837
X1.5 <- Authentic Leadership	0.167471	0.166181	0.024542	0.024542	6.823928
X2.1 <- Culture Firm Ethics	0.265695	0.273374	0.028015	0.028015	9.484149
X2.2 <- Culture Firm Ethics	0.253658	0.253182	0.024413	0.024413	10.390475
X2.3 <- Culture Firm Ethics	0.274066	0.273483	0.025728	0.025728	10.652550
X2.4 <- Culture Firm Ethics	0.260325	0.261205	0.024291	0.024291	10.716908
X2.5 <- Culture Firm Ethics	0.218426	0.215485	0.027616	0.027616	7.909306
Y1.1 <- Employee Incentives	0.273189	0.275949	0.02338	0.02338	11.684726
Y1.2 <- Employee Incentives	0.291856	0.291666	0.019676	0.019676	14.833139
Y1.3 <- Employee Incentives	0.231873	0.232134	0.022148	0.022148	10.469431
Y1.4 <- Employee Incentives	0.269879	0.26998	0.019244	0.019244	14.023960
Y1.5 <- Employee Incentives	0.186617	0.183987	0.039658	0.039658	4.705637
Y2.1 <- Work Load/Task Complexity	0.097448	0.128425	0.074452	0.074452	1.308868
Y2.2 <- Work Load/Task Complexity	0.329196	0.316449	0.029202	0.029202	11.273211
Y2.3 <- Work Load/Task Complexity	0.270535	0.258947	0.025691	0.025691	10.530143
Y2.4 <- Work Load/Task Complexity	0.29109	0.277444	0.026827	0.026827	10.850773
Y2.5 <- Work Load/Task Complexity	0.253748	0.247055	0.034000	0.034000	7.463280
Y3.1 <- Dysfunctional Audit Behavior	0.216342	0.207803	0.211594	0.211594	1.022437
Y3.2 <- Dysfunctional Audit Behavior	0.713362	0.643957	0.188832	0.188832	3.777760
Y3.3 <- Dysfunctional Audit Behavior	0.413583	0.422559	0.209039	0.209039	1.978499

**Table 5**  
**The Inner Loading Factors (Regression Coefficient) and Significance Test (t<sub>value</sub>)**

	Original Sample (O)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics ( O/STERR )	Hypothesis Testing
Authentic Leadership -> Culture Firm Ethics	0.67026	0.04356	0.04356	15.38675	Positive - Significant
Authentic Leadership -> Dysfunctional Audit Behavior	-0.17183	0.14741	0.14741	1.16569	Negative Not Significant
Authentic Leadership -> Employee Incentives	0.56162	0.05576	0.05576	10.07162	Positive - Significant
Authentic Leadership -> Work Load/Task Complexity	0.58676	0.06459	0.06459	9.08458	Positive - Significant
Culture Firm Ethics -> Dysfunctional Audit Behavior	-0.34390	0.10790	0.10790	3.18714	Negative Significant
Culture Firm Ethics -> Employee Incentives	0.36607	0.08188	0.08188	4.47086	Positive - Significant
Culture Firm Ethics -> Work Load/Task Complexity	0.08752	0.09479	0.09479	0.92333	Controlled Test
Employee Incentives -> Dysfunctional Audit Behavior	-0.29757	0.13921	0.13921	2.13757	Negative Significant
Employee Incentives -> Work Load/Task Complexity	0.32445	0.07952	0.07952	4.08036	Positive - Significant
Work Load -> Dysfunctional Audit Behavior	0.05615	0.11977	0.11977	0.46878	Controlled Test
Authentic Leadership -> Employee Incentives -> Dysfunctional Audit Behavior	-0.46939	0.28661	0.28661	3.30325	Negative Significant
Culture Firm Ethics -> Employee Incentives -> Dysfunctional Audit Behavior	-0.64147	0.24711	0.24711	5.32470	Negative Significant

To test the hypothesis, we can see the inner loading factors (regression coefficient) and significant level ( $t_{\text{statistic}}$ ). The higher the loading factor, the bigger the effect of one construct to others. The effect of the construct is statistically significant if the  $t_{\text{statistic}}$  is above 1.95 at confidence interval 95%; alpha 5%.

### **Hypothesis Testing**

The result of the PLS shows that the loading factor of authentic leadership towards corporate ethical values is 0.67 and  $t_{\text{value}}$  is 15.38. Statistically, the Hypothesis 1: Authentic Leadership has a positive significant effect on Corporate Ethical Values is accepted. The higher the authentic leadership perceived by auditor the higher the corporate ethical values of the accounting firm.

The loading factor of authentic leadership towards dysfunctional auditor behavior is -0.17 and  $t_{\text{value}}$  is 1.16. Statistically, the Hypothesis 2: Authentic Leadership has a negative significant effect on Dysfunctional Auditor Behavior is rejected. Although the result is statistically not significant, the authentic leadership is considered to reduce the incidence of dysfunctional auditor behavior. The previous researches show a variety results. The higher the authentic leadership perceived by auditor the lower the incidence of dysfunctional auditor behavior in the auditing process.

The loading factor of authentic leadership towards employee incentives is 0.56 and  $t_{\text{value}}$  is 10.07. Statistically, the Hypothesis 3: Authentic Leadership has a positive significant effect on Employee Incentives is accepted. The higher the authentic leadership is perceived by auditor the higher the accounting firm gives employee incentives to the auditor who accomplishes the auditing task according to the target.

The loading factor of corporate ethical values towards dysfunctional auditor behavior is -0.34 and  $t_{\text{value}}$  is 3.19. Statistically, the Hypothesis 4: Corporate Ethical Values has a negative significant effect on Dysfunctional Auditor Behavior is accepted. The higher the corporate ethical values perceived by auditor the lower the incidence of dysfunctional auditor behavior in the auditing process.

The loading factor of corporate ethical values towards employee incentives is 0.36 and  $t_{\text{value}}$  is 4.47. Statistically, the Hypothesis 5: corporate ethical values has a positive significant effect on Employee Incentives is accepted. The higher the corporate ethical values is perceived by auditor the higher the accounting firm gives employee incentives to the auditor who accomplishes the auditing task according to the target.

The loading factor of employee incentives towards dysfunctional auditor behavior is -0.30 and  $t_{\text{value}}$  is 2.14. Statistically, the Hypothesis 6: Employee Incentives has a negative significant effect on Dysfunctional Auditor Behavior is accepted. The higher the employee incentives are given to the auditors the lower the incidence of dysfunctional auditor behavior in the auditing process.

The loading factor of authentic leadership towards dysfunctional auditor behavior moderated by employee incentives is 0.47 and the  $t_{\text{value}}$  is 3.30. Statistically, the Hypothesis 7: Authentic Leadership has a negative significant effect on Dysfunctional Auditor Behavior moderated by Employee Incentives is accepted. The higher the authentic leadership perceived by the auditor and the higher employee incentives are given to the auditors the lower the incidence of dysfunctional auditor behavior in the auditing process.

The loading factor of corporate ethical values towards dysfunctional auditor behavior moderated by employee incentives is 0.47 and the  $t_{\text{value}}$  is 3.30. Statistically, the Hypothesis 8: corporate ethical values has a negative significant effect on Dysfunctional Auditor Behavior moderated by Employee Incentives is

accepted. The higher the corporate ethical values perceived by the auditor and the higher employee incentives are given to the auditors the lower the incidence of dysfunctional auditor behavior.

### **DISCUSSION AND CONCLUSION**

The results of this study show that authentic leadership has negative but not significant effect toward dysfunctional auditor behavior (at 95 confident interval). This result is consistent with Morris (2014), he noted, there was a significant negative correlation between all measures of authentic leadership and dysfunctional auditor behavior tested with few exceptions. For most that do not show significance at the .01 or .05 level, correlation is significant at the 90 percent confidence level.

The corporate ethical values, positively, affected the corporate ethical values. Corporate ethical values or ethical firm culture, directly, has negative significant effect on dysfunctional auditor behavior. This result is consistent with Schein (2004), who suggests that an organization's leadership influences its culture, which, in turn, influences the behavior of subordinates within the organization. Morris (2014) studied mediation effect of ethical firm culture on authentic leadership's relationship with dysfunctional auditor behavior. Besides, the ethical firm culture was negatively correlated with dysfunctional auditor behavior.

In this study, employee incentives was used as moderating variable. When moderated by employee incentives, there were a bigger effect of authentic leadership and corporate ethical values to ward dysfunctional auditor behavior. Workload or task complexity was used as control variable. This study shows that employee incentives has direct effect on dysfunctional auditor behavior. The result was consistent with Goodman (1995) explained that the incentive given to the auditor in an audit team based on differences achievement in the work, negatively, affect the dysfunctional auditor behavior.

Most of hypothesis tested in this study are accepted. The only rejected hypothesis is the authentic leadership has negative significant effect of dysfunctional auditor behavior. The result shows a negative but non-significant effect. But when the relationship between authentic leadership and dysfunctional leadership was moderated by employee incentives, the effect was negatively significant as being hypothesized.

The future research is suggested to add supervisory as moderating variable. The idea is adopting Outley and Pierce (1996) proposition. Yuen *et al.*(2012) tested that there is a positive relationship between task complexity and the acceptance of dysfunctional auditing behavior. The task complexity can be proposed as a proxy of dysfunctional auditor behavior as suggested by Yuen *et al.*2012.

# The Impact of Authentic Leadership, Corporate Ethical Values, Employee

---

GRADEMARK REPORT

---

FINAL GRADE

**/0**

GENERAL COMMENTS

**Instructor**

---

PAGE 1

---

PAGE 2

---

PAGE 3

---

PAGE 4

---

PAGE 5

---

PAGE 6

---

PAGE 7

---

PAGE 8

---

PAGE 9

---

PAGE 10

---

PAGE 11

---

PAGE 12

---

PAGE 13

---

PAGE 14

---

PAGE 15

---

# The Impact of Authentic Leadership, Corporate Ethical Values, Employee

## ORIGINALITY REPORT

15%

SIMILARITY INDEX

%

INTERNET SOURCES

15%

PUBLICATIONS

%

STUDENT PAPERS

## PRIMARY SOURCES

- 1 David P. Donnelly, Jeffrey J. Quirin, David O'Bryan. "Attitudes Toward Dysfunctional Audit Behavior: The Effects Of Locus Of Control, Organizational Commitment, and Position", Journal of Applied Business Research (JABR), 2011 7%

Publication
- 2 Paino, Halil, Zubaidah Ismail, and Malcolm Smith. "Modelling Dysfunctional Behaviour: Individual Factors and Ethical Financial Decision", Procedia - Social and Behavioral Sciences, 2014. 5%

Publication
- 3 Asian Review of Accounting, Volume 18, Issue 2 (2010-07-03) 3%

Publication

Exclude bibliography  On