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Does Ethical Culture in Audit Firms Support Auditor Objectivity?

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ABSTRACT The suggested cause of constrained auditor objectivity has been centred on auditors' financial incentives and long audit tenure. Recent research has challenged those assumptions and questioned the effectiveness of auditor rotation to counteract short-tenure threats to auditor objectivity. Audit firms and regulators need to adopt methods for enhancing auditor objectivity that are effective in various auditor–client relationships. This study examines whether audit firm ethical culture is positively related to auditor objectivity. Based on the responses of 281 practising auditors, the findings indicate that auditors are more likely to make objective judgments in ethical cultures characterized by the rewarding of ethical behaviour and punishment of unethical behaviour, prevalence of ethical norms, visible ethical leadership, and low emphasis on obedience to authority. In conclusion, evidence indicates that auditors in audit firms with a strong ethical culture are more likely to maintain auditor objectivity than are auditors in less supportive cultures. This suggests that audit firms should promote a strong ethical culture to reduce the risk of constrained auditor judgment.

Keywords: auditor objectivity, audit firm, ethical culture

1. Introduction

Some evidence suggests that long tenure may improve auditor knowledge and audit quality (Gul, Fung, & Jaggi, 2009), while other evidence indicates that long tenure may constrain auditor judgment (Bamber & Iyer, 2007; Svanberg & Öhman, 2015). Regardless of which view is emphasized, the accounting literature has treated constrained auditor objectivity as an issue relating mostly to financial dependence and close client relationships, considering auditor rotation an obvious countermeasure (e.g. Carey & Simnett, 2006; Dhaliwal, Gleason, Heitzman, & Melendrez, 2008; Haynes, Jenkins, & Nutt, 1998; Hollingsworth & Li, 2012; Kadous, Kennedy, & Peecher, 2003).

Although audit standards, such as the IESBA's (2015) Code of Ethics for Professional Accountants, require auditors to be aware of objectivity threats and take action to avoid exposure to these threats, it appears that regulators possess a limited arsenal of countermeasures, that is, auditor rotation, against constrained auditor judgment caused by the auditor–client relationship (Tysiac, 2013). Recent evidence in the accounting literature suggests that rotation is not a

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comprehensive way to enhance auditor objectivity because auditor objectivity may be constrained even if the relationship with the client is short in duration (Bauer, 2015). Consequently, research needs to consider other methods to counter objectivity threats purportedly caused by the auditor–client relationship.

We are interested in mechanisms that support auditor objectivity regardless of whether threats develop rapidly or over a long tenure. The mechanism proposed by Bauer (2015) to cope with short-tenure threats to objectivity is to trigger the auditors' professional identities, but this method may be difficult to control in practice because auditors are exposed to cues not controlled by the audit firm. In contrast, the ethical cultures in audit firms are under management control, and we propose that exposure to a strong ethical culture may be associated with enhanced auditor objectivity.

Ethical culture is a subset of organizational culture. While organizational culture may affect a large variety of behaviours, such as group creativity, job satisfaction, and work effort, ethical culture is particularly relevant to judging discretionary issues involving an ethical dimension (Treviño, Butterfield, & McCabe, 1998). Ethical culture represents 'a multidimensional interplay among various "formal" and "informal" systems that are capable of promoting either ethical or unethical behaviour' (Treviño, 1990).

Our anticipation that ethical cultures in audit firms are relevant to auditor objectivity is justified by previous findings in the literature. First, there is evidence in the organization literature that organizational culture affects several types of ethical behaviour (Casey, Davidson, & Schwartz, 2001; Deal & Kennedy, 1982; Ford & Richardson, 1994; Key, 1999) and that ethical culture positively affects ethical behaviour (Kaptein, 2008, 2011). Second, the accounting literature has found that auditors' ethical decisions are influenced by the organizational culture (e.g. Douglas, Davidson, & Schwartz, 2001; Ponemon, 1992) and by the ethical culture (Sweeney, Arnold, & Pierce, 2010) of their audit firms. Third, exercising constrained auditor judgment can be seen as unethical because maintaining objectivity is viewed as a cornerstone of auditing (Mautz & Sharaf, 1961). Judging issues that are of fundamental importance from both the professional and ethical perspectives should make auditors susceptible to influence from the audit firms' ethical culture.

We adopt a cross-sectional research design to examine the association between ethical culture and auditor objectivity, measuring the impact of ethical culture on auditor objectivity by the extent to which ethical culture reduces auditors' acquiescence to clients' preferred treatment. We use a task setting asking auditors to assume that a scenario concerns their largest client. According to the scenario, the auditor thinks that an accounting issue is material but the client disagrees. Whether the auditor accepts the client's point of view to some degree measures the extent to which auditor judgment is constrained in the situation. We use an ethical culture instrument developed by Treviño et al. (1998), and anticipate that a strong ethical culture will be associated with less constrained auditor judgment than will a weak ethical culture.

The present study makes three contributions to the accounting literature. First, to the best of our knowledge, this study is the first to examine whether a strong ethical culture enhances auditor objectivity. In previous research, Windsor and Ashkanasy (1996) have found that the organizational culture in audit firms is associated with auditors' personal characteristics, which in turn may affect auditors' decision-making. However, they did not investigate the direct relationship between ethical culture and auditor objectivity.

Second, this study examines a potential objectivity-enhancing factor that may reduce the harms attributable not only to long-tenure threats to auditor objectivity but also to short-tenure threats. The latter aspect is important because the accounting literature has largely ignored short-tenure threats (cf. Bauer, 2015). Regulators, researchers, and the audit profession

have focused on long-tenure settings entailing repeated auditor–client interactions. Factors that may protect auditors from short-tenure and long-tenure threats, that is, professional identity and auditor experience, are known to the accounting literature (cf. Bamber & Iyer, 2007; Bauer, 2015; Stefaniak, Houston, & Cornell, 2012; Svanberg & Öhman, 2015), but the debate has been preoccupied with the advantages and disadvantages of auditor rotation. Research into factors that may supplement rotation as means to enhance auditor objectivity is thus limited. Our finding that ethical culture is positively related to auditor objectivity does not mean that other factors are without effect. However, it indicates that objective auditor judgment is more strongly protected in a strong ethical culture than in a weak ethical culture. In contrast to auditor rotation, ethical culture likely affects auditor objectivity continuously, serving as a barrier against short-tenure as well as long-tenure threats.

Third, the present study is one of few in the accounting literature that examines an objectivity-enhancing mechanism that can be controlled by the audit firm. In contrast to other mechanisms, such as promoting stronger professional identity and triggering this identity (cf. Bauer, 2015), which may be difficult to put into practice, ethical cultures in audit firms can be controlled by management because role modelling by top management is an element of ethical culture (Treviño et al., 1998).

The remainder of the paper is structured as follows: In the next section, we present a literature review and develop the hypothesis. We then outline methodological issues. This is followed by the results and finally a concluding discussion.

2. Literature Review and Hypothesis Development

Ethical culture is considered one of the most important deterrents of ethical versus unethical behaviour (Douglas et al., 2001). While some studies have examined the impact of ethical culture on unethical acts (Douglas et al., 2001; Ponemon, 1992; Svanberg & Öhman, 2013; Sweeney et al., 2010; Windsor & Ashkanasy, 1996), few studies examine whether ethical culture affects auditor objectivity.[1]

Research into the impact of ethical culture on auditors' ethical behaviour has focused on the link between social and personal factors influencing ethical behaviour. Windsor and Ashkanasy (1995, 1996) found only weak support for their hypothesis that organizational cultures in audit firms affect auditors' decision-making styles, which in turn would affect their ethical decisions. They claimed that acculturation processes in audit firms result in aggressive and outcome-oriented values, limiting the association between organizational culture and personal decision-making styles. Douglas et al. (2001) examined the impact of ethical culture on auditors' individual values and the combined effect of these on how auditors judge ethical dilemmas. They found that ethical cultures in audit firms are indirectly related to ethical judgments, as ethical culture affects individual values and values in turn affect judgments. These findings do not explicitly concern a relationship between ethical culture and auditor objectivity, but provide reasons for expecting that such a relationship might exist.

A second set of studies focusing on ethical culture and ethical behaviour is found in research into time budget pressure and reduced audit quality acts. A recent study suggests that the mechanisms that cause reduced audit quality acts and objective impairment due to close relationships with clients are the same (Svanberg & Öhman, 2015). Svanberg and Öhman (2015) refer to Cianci and Bierstaker (2009), who explained auditors' biased judgment under time budget pressure with reference to motivated reasoning theory (Kunda, 1990, 1999). Consistent with this theory, there is evidence that auditors make judgments in favour of client-preferred alternatives in response to efficiency concerns (Bierstaker, Bedard, & Biggs, 1999; Glover, Prawitt, Wilks, & McDaniel, 2005; Haynes et al., 1998). In essence, this means that

when time budget pressure is high, auditors tend to overestimate the quality of clients' internal control and justify reduced audit quality acts to themselves by thinking that audit risk does not increase as a result of committing such acts. Svanberg and Öhman (2015) argue that auditors who have overly close relationships with their clients tend to acquiesce to the client-preferred accounting position due to the same mechanism, that is, overestimation of the quality of the client's internal controls. Thus, if the 'disease' is a bias stemming from the overestimation of internal control quality that happens when auditors are stressed by time budget pressure or when auditors' relationships with clients are too close, we propose that the same 'medicine' may be effective in both cases. Therefore the indication that strong ethical culture affects audit quality (cf. Svanberg & Öhman, 2013; Sweeney et al., 2010) justifies our anticipation that a strong (weak) ethical culture will be associated with less (more) acquiescence to the client-preferred accounting position.

Also meriting discussion is how particular aspects of ethical culture may be associated with the likelihood that auditors will acquiesce to the client-preferred accounting position. A first aspect is 'tone at the top', which is based simultaneously on leadership and ethical culture and which has proven effects on ethical behaviour in accounting and other fields (Jenkins, Deis, Bedard, & Curtis, 2008). If a firm allows irregular shortcuts, auditors are more likely to commit reduced audit quality acts (Pierce & Sweeney, 2005; Willett & Page, 1996). In contrast, top management in audit firms can discourage unethical behaviour, with the likely effect of reducing the frequency of unethical behaviour (Finn, Chonko, & Hunt, 1988). A second aspect is the use of rewards and punishments. Previous evidence suggests that the adequacy of rewards and the severity of punishments both affect ethical behaviour (Fritzsche, 1991; Gurley, Wood, & Nijhawan, 2007; Treviño & Ball, 1992). A third aspect of ethical culture is social influence pressures (DeZoort & Lord, 1997) such as compliance pressure, conformity pressure, and obedience pressure. Previous studies have found that auditors are subject to influence from both peers and management (DeZoort & Lord, 1997; Otley & Pierce, 1996).

The ethical culture construct developed by Treviño et al. (1998) is described as two-dimensional. One dimension is the general ethical environment (GEE), which includes the degree to which unethical behaviour is punished, the degree to which ethical behaviour is rewarded, leaders' role modelling, and ethical norms. This dimension captures such aspects as 'tone at the top' and more firmly structured influences on behaviour, such as guidelines and reward systems. The second dimension is obedience to authority (OA), which includes the extent to which such obedience is demanded. Previous use of the Treviño et al. (1998) instrument found that the conformity pressure imposed by authorities who require that audit staff must simply 'do as they are told' negatively affects ethical behaviour (Shafer & Wang, 2010; Svanberg & Öhman, 2013). Thus, previous evidence regarding the relationship between aspects of ethical culture and ethical behaviour indicates that a supportive 'tone at the top' and rewarding (punishing) ethical (unethical) behaviour are positively associated with ethical behaviour and that strong conformity pressure is negatively related to ethical behaviour.

Based on previous evidence regarding the effects of ethical culture on ethical behaviour, we expect to find that ethical cultures that are more supportive of ethical behaviour tend to be environments in which auditors are more likely to make objective judgments. We expect to find that the GEE dimension positively affects auditor objectivity when the GEE is strong, and that a culture with a strong emphasis on OA is associated with less objective auditor judgment. Accordingly, we state the following hypothesis:

H1: Auditors in audit firms that have ethical cultures supportive of ethical behaviour are more objective than auditors in audit firms with less supportive cultures.

3. Method

3.1. Sample and Data Collection

Because ethically charged factors are examined in this study, we opted to use an anonymous self-administered questionnaire. This method of data collection allows respondents to reveal sensitive information about their firms with little fear of consequences. Using a register from Revisorsnämnden (the Supervisory Board of Public Accountants), we selected a random sample of 1200 auditors and emailed them the instrument using email survey software. Before administration, the questionnaire was pilot tested using two authorized auditors. Based on the pilot test results, the questionnaire was modified to ensure that the respondents made the correct interpretations and to verify proper translation from English into Swedish.

The self-administered questionnaire was distributed by email in May 2012. Respondents were assured that participation in the study was voluntary and that the information would be used solely for scientific purposes. We informed respondents that the collection of responses through the email survey software ensured anonymity, as it did not enable tracking of respondent identity. According to the pilot tests, the questionnaire took about 10 minutes to complete.

In total, 281 complete responses were obtained, representing a 23.4% response rate, achieved with the aid of four reminders generated by the email survey software over two weeks. The possibility of bias in the data was dealt with using a method described by Larson and Catton (1959). Non-respondents' answers were taken to be represented by late respondents' answers and any statistically significant difference between late and early respondents was considered an indication of non-response bias. An ANOVA was computed to test the difference between late respondents and early respondents. Late respondents were defined as the last 40 respondents to submit their questionnaires, that is, after several reminders, while early respondents were the first 40 respondents. The test results for the late respondents were statistically indistinguishable from those for the early respondents.

3.2. Instrument and Measures

The measure of ethical culture was the 15-item ethical culture questionnaire developed by Treviño et al. (1998) and adapted to the auditing context by Shafer and Wang (2010). This part of the questionnaire contained items about rewards and punishments for ethical behaviour, peer behaviour, the extent to which organizational leaders serve as role models for ethical conduct, the extent to which norms support ethical conduct, correspondence between the professional ethics code and informal norms, and the extent to which employees are expected to obey authority figures without question. This part of the questionnaire asked respondents to respond to items using a six-point Likert-type scale.

Moreover, the questionnaire contained a short case, available in the Appendix, adapted from research into auditor behaviour in audit conflict situations (Bamber & Iyer, 2007; Knapp, 1985). Respondents were asked to assume that the case involved their largest client. The case describes a situation in which the auditor's conclusion is that unrecorded liabilities are material, but the client's management strongly disagrees. Respondents were asked about the likelihood that they would accept the client's preferred treatment and not require that the liabilities be recorded in the financial statements, and to indicate their response on a probability scale running from 1 (very low likelihood) to 10 (very high likelihood). A higher score represents a higher likelihood that the auditor would acquiesce to the management demand and not maintain objective judgment. Accordingly, responses to this case provided a measure of auditor objectivity.

In addition, we recognized a need for further empirical evidence of the impact of auditor–client identification and professional identification, respectively, on auditor objectivity,

originally found by Bamber and Iyer (2007). The measures of client identification and professional identification were adapted from the organizational identification scale (Mael & Ashforth, 1992; Wan-Huggins, Riordan, & Griffeth, 1998). We constructed the client identification measure in accordance with Bamber and Iyer (2007), rephrasing the five-item scale using a professional orientation so that it measured professional identification. This part of the questionnaire asked respondents to respond to items using a five-point Likert-type scale.

All measures were adapted from scales validated in previous research; the Appendix presents the measures used.

3.3. Principal Component Analysis and Collinearity Statistics

To determine the factor structure of ethical culture, we performed a principal component analysis. This analysis was performed to identify and compute scores for the underlying components of the ethical culture scale. The results presented in Table 1 indicate that the items loaded on two factors, that is, GEE and OA. The pattern of the factor loadings is distinct. The loadings are above 0.6 for the eight items that load on GEE, while the cross-loadings are below 0.3. The three items that load high on OA have loadings above 0.7 and cross-loadings below 0.3. The factor structure obtained in Shafer and Wang (2010) differs slightly from that in Svanberg

Table 1. Results of principal component factor analysis.

Items	Factor loading	
	GEE	OA
Ethical culture		
Unethical behaviour is punished in this organization.	0.625	−0.108
The top managers of this organization represent high ethical standards.	0.787	−0.101
People of integrity are rewarded in this organization.	0.678	0.097
Top managers of this organization regularly show that they care about ethics.	0.805	0.039
Ethical behaviour is the norm in this organization.	0.770	−0.038
Top managers of this organization guide decision-making in an ethical direction.	0.789	0.098
Ethical behaviour is rewarded in this organization.	0.713	0.151
Professional ethics code requirements are consistent with informal organizational norms.	0.831	0.048
This organization demands OA figures, without question.	0.014	0.824
People in this organization are expected to do as they are told.	−0.025	0.769
The boss is always right in this organization.	0.080	0.816
Client identification		
When someone praises this client, it feels like a personal compliment.	0.771	
When I talk about this client, I usually say ‘we’ rather than ‘they’.	0.584	
This client’s successes are my successes.	0.813	
I am very interested in what others think about my client.	0.584	
When someone criticizes this client, it feels like a personal insult.	0.791	
Professional identification		
When someone criticizes my profession, it feels like a personal insult.	0.536	
When I talk about my profession, I usually say ‘we’ rather than ‘they’.	0.650	
I am very interested in what others think about my profession.	0.603	
My profession’s successes are my successes.	0.801	
When someone praises my profession, it feels like a personal compliment.	0.835	

Table 1 reports factor loadings obtained by means of a principal component analysis with varimax rotation. The items not retained in the final solution are not displayed. Two ethical culture factors were extracted (i.e. GEE = general ethical environment and OA = obedience to authority). Client identification and professional identification each loaded on one component.

and Öhman (2013), and comparison between these two studies and the original development of the scale (Treviño et al., 1998) is difficult because Shafer and Wang (2010) and Svanberg and Öhman (2013) used a shorter version of the scale than did Treviño et al. (1998). However, the factors obtained in the present study can be theoretically interpreted consistently with Treviño et al. (1998). The internal reliability Cronbach alpha scores for the ethical culture components are 0.882 for GEE and 0.723 for OA, which means that the composite variables display good (GEE) and acceptable (OA) levels of internal consistency.

To determine the factor structure of client identification and professional identification, which we use only for the additional tests, we performed the principal component analysis presented in Table 1. The results indicate that the items loaded on factors representing the client identification scale and the professional identification scale, respectively, each consisting of five items. As expected, these results confirm that the measures are one-dimensional. The internal reliability Cronbach alpha for the client identification factor is 0.711 and the corresponding value for the professional identification factor is 0.737, indicating that the internal consistency is acceptable for these compound variables.

Hypothesis tests were performed using the variables GEE, OA, and auditor client acquiescence, while client identification, professional identification, auditor experience, auditor tenure, client importance, client size, auditor position in the audit firm, and Big 4 affiliation were variables used for additional tests, essentially replicating Bamber and Iyer (2007), or were used as control variables. We use auditor client acquiescence as a measure of auditor objectivity, which is our central variable. Auditor tenure was measured by asking respondents to state how many years they had audited their largest client, and client size was measured by asking respondents to state the annual turnover of their largest client in Swedish krona (SEK). Regarding comparability with Bamber and Iyer (2007), it should be noted that the variables used in the present study were measured using items that were identical or very similar to theirs.

Collinearity statistics were generated to verify whether the relatively high pairwise correlations between the variables client identification, professional identification, auditor tenure, and auditor experience indicated multicollinearity in the regression model. Regarding collinearity statistics, the tolerance values were all below 1 and the variance inflation factor (VIF) values were all between 1.0 and 1.8, suggesting no significant multicollinearity. We ensured that the residuals were normally distributed by using the Shapiro–Wilk test and by visually examining the diagrams, all of which evidenced approximately normal distribution.

4. Results

4.1. Descriptive Statistics

Demographic information about the respondents is summarized in Table 2. Most respondents were men, most worked for non-Big 4 firms, and there were slightly more junior and senior auditors than managers and partners. On average, the respondents were 46–47 years old and had been auditors for just over 17 years. Their average GEE is 4.66 and average OA is 4.61 (i.e. arithmetic average values of the item scores). Auditor client acquiescence averages 3.93, with a rather high standard deviation. The average client identification is 2.60, below the scale midpoint, and the average professional identification is 3.32, above the scale midpoint.

The client identification level can be compared with that found in two previous studies. Bamber and Iyer (2007), who examined auditors with very large clients in the USA, found an average client identification of 3.16 using the same measurement scale. The average client identification found by Svanberg and Öhman (2015), who examined auditors with smaller clients than did Bamber and Iyer (2007), was 2.73, that is, comparable to the present finding

Table 2. Descriptive statistics.

Variables	Frequency (%)	Mean	SD	Median	Min	Max
Male	67.6					
Female	32.4					
Big 4	31.0					
Non-Big 4	69.0					
Junior/senior	53.4					
Manager/partner	46.6					
Age (years)		46.55	9.75	45	27	68
Auditor experience (years)		17.10	4.78	17	5	30
Auditor tenure (years)		6.17	3.69	5	0.5	12
GEE (1–6)		4.66	0.96	4.75	1.50	6.00
OA (1–6)		4.61	1.03	5.00	1.00	6.00
Auditor client acquiescence (1–10)		3.93	2.48	3	1	10
Client identification (1–5)		2.60	0.68	2.60	1.00	4.40
Professional identification (1–5)		3.32	0.64	3.40	1.00	5.00
Client importance (1–5)		2.44	0.81	2.00	1.00	4.00
Client size (turnover, SEK millions)		3267.32	8548.40	1000	1	90,000

Note: Variables: Auditors are either male or female, work for either a Big 4 or non-Big 4 firm, and are either junior/senior or managers/partners. 'Age' is the age of the auditor in years. 'Auditor experience' is the number of years the auditor has worked as an auditor. 'Auditor tenure' is the length of time the auditor has audited the client. 'GEE' is a component of the ethical culture of the audit firm and 'OA' is a second component of the ethical culture. 'Auditor client acquiescence' measures the extent to which an auditor acquiesces to the client-preferred treatment. 'Client identification' is a variable describing the extent to which an auditor identifies with a client. 'Professional identification' is the extent to which the auditor identifies with the audit profession. 'Client importance' is the perceived importance of the client to the auditor's firm. 'Client size' is the logarithm of the annual turnover (SEK millions) of the client (SEK 1 = EUR 0.11). The number of observations is 281.

of 2.60. The professional identification level found here, 3.32, can be compared with the level found by Bamber and Iyer (2007), which was 3.71, and the level found by Svanberg and Öhman (2015), which was 3.31. Again, there seems to be a difference between the Swedish and US auditors. Regarding professional identification, it must be noted that most auditors examined here are non-Big 4 auditors while Bamber and Iyer (2007) examined only Big 4 auditors.

4.2. Hypothesis Test Results

Table 3 presents Pearson product–moment correlation coefficients for the variables. As expected, these correlations indicate potentially significant relationships between several of the variables. The correlations between the ethical culture dimensions GEE and OA, respectively, and auditor client acquiescence are significant ($p < .05$), indicating preliminary support for H1.

Table 4 presents data from a multiple regression of auditor client acquiescence.[2] Two regression models are presented, and the analysis provides support for H1 about the impact of ethical culture on auditor objectivity, because the coefficients for both GEE and OA are significant in model 1 ($p < .01$). The directions of the relationships differ according to expectations, because GEE represents a culture that is supportive of individual ethical decisions, while OA represents a culture in which little room is allowed for auditors' ethical judgment (Shafer & Wang, 2010). The regression clearly indicates the negative impact of GEE on the likelihood that the auditor will acquiesce to the client's preferred treatment. This indicates that the elements that form part of the GEE factor encourage auditor objectivity, while the obedience culture captured by the OA factor seems to discourage objective auditing. Higher levels of OA are indicative of an unethical culture in which auditors should 'do as they are told'.

Table 3. Pearson product–moment correlations.

Variables	GEE	OA	Client identification	Professional identification	Auditor experience	Auditor tenure	Client importance	Client size	Manager/ partner	Big 4
Auditor client acquiescence	−0.155*	0.163*	0.011	−0.074	0.047	0.139*	−0.016	0.028	0.077	−0.076
GEE		0.000	0.115	0.254**	0.194**	0.035	0.152*	0.134*	00.052	−0.090
OA			0.003	−0.035	−0.007	−0.005	0.052	−0.006	−0.008	−0.120
Client identification				0.377**	0.182**	0.121*	0.225**	0.074	0.183**	−0.039
Professional identification					0.154*	0.040	0.102	0.050	0.139*	0.060
Auditor experience						0.434**	−0.174**	0.111	0.114	−0.345**
Auditor tenure							−0.021	−0.028	0.066	−0.172**
Client importance								0.031	0.021	0.166**
Client size									0.086	−0.095
Manager/partner										−0.066

Note: Variables: 'Auditor client acquiescence' measures the extent to which an auditor acquiesces to the client-preferred treatment. 'GEE' is a component of the ethical culture of the audit firm and 'OA' is a second component of the ethical culture. 'Client identification' is a variable describing the extent to which an auditor identifies with a client. 'Professional identification' is the extent to which the auditor identifies with the audit profession. 'Auditor experience' is the number of years the auditor has worked as an auditor. 'Auditor tenure' is the length of time the auditor has audited the client. 'Client importance' is the perceived importance of the client to the auditor's firm. 'Client size' is the logarithm of the annual turnover (SEK millions) of the client (SEK 1 = EUR 0.11). 'Manager/partner' is a dichotomous variable that is 0 if the auditor is junior or senior and 1 if the auditor is manager or partner. 'Big 4' is a dichotomous variable that is 1 if the audit firm is one of the Big 4 and 0 otherwise. The number of observations is 281.

*$p < .05$.

**$p < .01$; two-tailed tests.

Table 4. Multiple regression of auditor client acquiescence.

		Model 1			Model 2		
		Auditor client acquiescence			Auditor client acquiescence		
Dependent variable	Predicted sign	Coeff.	Sig.	VIF	Coeff.	Sig.	VIF
Variable							
Client identification	+				0.183	0.300	1.272
GEE	–	−0.536	0.001	1.135	−0.505	0.003	1.141
OA	+	0.449	0.004	1.026	0.432	0.006	1.024
Professional identification	–	−0.516	0.046	1.118	−0.622	0.026	1.256
Auditor experience	–	−0.102	0.602	1.539	−0.098	0.623	1.575
Auditor tenure	+	0.240	0.086	1.241	0.211	0.136	1.241
Client importance	+	−0.075	0.707	1.108	−0.125	0.547	1.158
Client size	+	−0.017	0.838	1.016	−0.021	0.803	1.020
Manager/partner	+	0.284	0.365	1.034	0.222	0.490	1.053
Big 4	?	−0.273	0.465	1.248	−0.203	0.594	1.262
R^2		0.109			0.101		
Adj. R^2		0.072			0.060		
F		2.959			2.408		
Sig.		0.002			0.010		
Sig. F for change between models 2 and 1					0.300		

Note: Significance values refer to two-tailed tests. Variables: 'Auditor client acquiescence' measures the extent to which an auditor acquiesces to the client-preferred treatment. 'Client identification' is a variable describing the extent to which an auditor identifies with a client. 'GEE' is a component of the ethical culture of the audit firm and 'OA' is a second component of the ethical culture. 'Professional identification' is the extent to which the auditor identifies with the audit profession. 'Auditor experience' is the number of years the auditor has worked as an auditor. 'Auditor tenure' is the length of time the auditor has audited the client. 'Client importance' is the perceived importance of the client to the auditor's firm. 'Client size' is the logarithm of the annual turnover (MSEK) of the client (SEK 1 = EUR 0.11). 'Manager/partner' is a dichotomous variable that is 0 if the auditor is junior or senior and 1 if the auditor is manager or partner. 'Big 4' is a dichotomous variable that is 1 if the audit firm is one of the Big 4 and 0 otherwise. The number of observations is 281. VIF is the measure of collinearity.

4.3. Additional Tests

Auditor–client identification was found by Bamber and Iyer (2007) to impair auditor objectivity. Although a few studies have by now confirmed their findings (e.g. Stefaniak et al., 2012), we still consider the issue relatively new and needing further empirical support from different audit environments and countries, not least when ethical culture is in focus.

Both models presented in Table 4 contain information that essentially replicates tests originally conducted by Bamber and Iyer (2007). Looking at the regressions presented, the additional tests with which we examine some of the relationships treated by Bamber and Iyer (2007) indicate an insignificant positive regression coefficient for client identification ($p = .300$) in model 2, suggesting the absence of a relationship in this sample between client identification and auditor client acquiescence. Thus, the tests fail to confirm this relationship.

The absence of a relationship does not necessarily contradict earlier results, because our sample consists of auditors with smaller clients and lower levels of client identification than have been treated in previous US research. Client identification likely needs to surpass a threshold in order to affect auditor judgment, and auditors likely need to spend sufficient time with their clients to develop identification. The perceived client importance found in the present study, 2.44 (see Table 2), differs greatly from the value obtained by Bamber and Iyer (2007) using the

same scale, 4.12. This large gap indicates that the auditors in our sample do not perceive a strong relationship with their clients because their clients do not seem very important. This argument is supported by the previous finding that client importance is an antecedent of client identification (Bamber & Iyer, 2007). This lack of relationship between client identification and auditor client acquiescence can also be explained by sample differences compared with Bamber and Iyer (2007) and Stefaniak et al. (2012), in the sense that more than half of the auditors in our sample are juniors and seniors who have less contact with client management than do managers and partners (Kerr, 2013; Tan & Jamal, 2006). Our finding that auditors who exhibit higher levels of professional identification are more objective than auditors with lower levels of professional identification confirms the US results (Bamber & Iyer, 2007; Stefaniak et al., 2012).

5. Discussion and Conclusions

This study extends previous literature by examining the extent to which ethical culture in audit firms might protect against deteriorating auditor objectivity, and we contribute to the accounting literature in two other ways. First, because ethical culture has the potential to affect auditor objectivity continuously, it may help to mitigate both long-tenure and short-tenure threats, and ways to deal with the latter have largely been ignored by the accounting literature (cf. Bauer, 2015). Second, while most previously examined factors that encourage auditor objectivity or mitigate the effects of inappropriate client relationships on auditor objectivity cannot be controlled by audit firm management, ethical culture is a tool that, if effective, could be commanded by management.

Our main results suggest that auditors in firms with stronger ethical cultures make more objective decisions, in terms of non-acceptance of the client's preferred accounting position, than do auditors in audit firms with less ethically supportive cultures. The GEE factor is positively related to auditor objectivity, and this factor represents a culture that is supportive of individual ethical decisions. The OA factor is negatively related to auditor objectivity, and represents the extent to which the organizational culture demands OA regardless of ethical conviction. Authoritarian environments are inconsistent with ethical behaviour because ethical behaviour requires space for individuals to challenge management directives and instructions (Shafer & Wang, 2010). In conclusion, our findings indicate that auditors are more likely to make objective judgments in ethical cultures characterized by the rewarding of ethical behaviour and punishment of unethical behaviour, prevalence of ethical norms, visible ethical leadership, and low emphasis on OA. This supports the previous finding that the ethical decisions made by auditors can be influenced by the ethical cultures of their audit firms (Ponemon, 1992; Windsor & Ashkanasy, 1996). Our results support the view that strong shared values provide guidance in situations in which accounting rules need substantial interpretation, opportunism needs to be controlled, and individual and organizational goals are incongruent (Douglas et al., 2001).

Although the present results should be interpreted cautiously due to several limitations (e.g. the general limitations of survey research, that fact that several respondents are junior or senior auditors, the modest response rate and possible non-response bias, and the measurement of auditor client acquiescence using a constructed scenario), the results seem important in light of the other methods that regulators have used to increase auditor objectivity. Most of these, including IESBA's Code of Ethics for Professional Accountants, have aimed to make auditors aware of the risks arising from strong client relationships. For example, Swedish legislation requires that auditors analyse their relationships with clients and document the risks they perceive, and that quality assurance measures be initiated based on the outcome of this self-assessment (Öhman & Wallerstedt, 2012). The problem with this way of dealing with objectivity is that it is difficult for the auditor to explore the causes of judgment bias. In addition to auditor rotation and the demand

that auditors analyse objectivity risks, the use of positive ethical cultures in audit firms is a tool that has not previously been examined in relation to auditor objectivity.

The results of our additional tests, replicating Bamber and Iyer (2007), indicate that auditors identify with their clients and that the level of client identification is lower than that of professional identification. In the present sample, auditors who identify more with their clients do not acquiesce more to the client's preferred treatment of a material accounting issue. As discussed in Section 4.3, this lack of a relationship can be explained by the fact that our sample differs from the samples used in previous studies. The lack of a significant impact of client identification on auditor objectivity should therefore be interpreted with caution. Confirming previous US studies (Bamber & Iyer, 2007; Stefaniak et al., 2012), we found that auditors who exhibit higher levels of professional identification are less likely to acquiesce to the client's position. This further supports the argument that the development of a strong professional identity, as well as a strong ethical culture, is a way to reduce the impact of improper client relationships on auditor objectivity.

Building on the effect of ethical culture on auditor objectivity detected here, future research could examine how Kaptein's (2008, 2011) multidimensional construct of ethical culture is related to auditor objectivity. Furthermore, the combined effects of formal or procedural ethical culture factors and the more informal, ideational aspects of context that are captured by ethical climate (Victor & Cullen, 1988) also appear worth examining in this context. A combination of ethical culture and ethical climate could provide a better view of the contextual factors affecting auditor objectivity.

As mentioned, the sampled Swedish auditors were auditing smaller companies on average than was the case in the earlier US research (Bamber & Iyer, 2007; Stefaniak et al., 2012). Although Bamber and Iyer (2007) found that the size of the client company did not significantly affect auditor objectivity, a finding supported by previous archival research (e.g. Myers, Myers, & Omer, 2003; Reynolds & Francis, 2000), the size of the companies studied here may be below the threshold at which the negative effects of client identification appear.

Furthermore, although our main finding is that ethical culture is associated with more objective auditor judgment, this result should be interpreted cautiously because of the possibility that auditors with higher (or lower) ethics are more likely to work in audit firms that have established high (or low) ethical culture, meaning that the effect could be caused by selection as well as by socialization.

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

[1]Auditor objectivity, objective judgment, and auditor client acquiescence are used interchangeably. Higher levels of auditor objectivity or objective judgment mean lower levels of acquiescence, and we refer to auditor client acquiescence mostly when describing our method, because we explicitly measure auditor objectivity by the extent to which the auditor acquiesces to the client-preferred accounting position.

[2]As a robustness test, we conducted ordinal logistic regression with auditor client acquiescence as the dependent variable. The results compare well with the linear regression results.

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Appendix: Measures Used

Ethical Culture

The item scales below were anchored at completely false (1) and completely true (6).

Management in this organization disciplines unethical behaviour when it occurs.
Employees in this organization perceive that people who violate the professional code of ethics still get formal organizational rewards.*
Penalties for unethical behaviour are strictly enforced in this organization.
Unethical behaviour is punished in this organization.
The top managers of this organization represent high ethical standards.
People of integrity are rewarded in this organization.
Top managers of this organization regularly show that they care about ethics.
Top managers of this organization are models of unethical behaviour.*
Ethical behaviour is the norm in this organization.

Top managers of this organization guide decision-making in an ethical direction.
Ethical behaviour is rewarded in this organization.
Professional ethics code requirements are consistent with informal organizational norms.
This organization demands obedience to authority figures, without question.
People in this organization are expected to do as they are told.
The boss is always right in this organization.

*Reverse scored.

Auditor Client Acquiescence (Auditor Objectivity)
Please respond to the following short audit case. We appreciate that normally you would require more information. However, for the purpose of our study we ask that you (1) respond based on the limited information provided and (2) assume that the case involves your largest client referred to above.

In the current year's audit, a dispute has arisen between you and the management of your largest client over the materiality of certain unrecorded liabilities discovered by you during the audit. Professional and firm guidelines do not provide a definitive answer on the materiality of the amount involved. In your opinion, the amount is material. However, the client management strongly disagrees. The client's CFO argues that the total amount of unrecorded liabilities is immaterial and, therefore, it is unnecessary to make adjusting entries in the financial statements. As the auditor, how likely is it that you will *not require* these liabilities to be recorded? Please indicate your response as a likelihood between 1 (very low likelihood) and 10 (very high likelihood).

Client Identification
The item scales below were anchored at completely disagree (1) and completely agree (5).

When someone praises this client, it feels like a personal compliment.
When I talk about this client, I usually say 'we' rather than 'they'.
This client's successes are my successes.
When someone criticizes this client, it feels like a personal insult.

Professional Identification
The item scales below were anchored at completely disagree (1) and completely agree (5).

When someone criticizes my profession, it feels like a personal insult.
When I talk about my profession, I usually say 'we' rather than 'they'.
I am very interested in what others think about my profession.
My profession's successes are my successes.
When someone praises my profession, it feels like a personal compliment.

Client Importance
The item scale below was anchored at no importance (1) and high importance (5).
Please estimate the importance of this client to your firm.