

**THE RELATIONSHIPS BETWEEN
ROLE CONFLICT, JOB SATISFACTION,
ORGANIZATIONAL COMMITMENT
AND TURNOVER INTENTION
AMONG AUDITORS IN SABAH**

VOO SZE YEE @ GRACE

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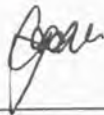
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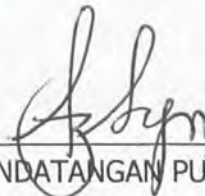
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Penyelia: Prof. Madya Dr. Hjh.
Arsiah Hj. Bahron

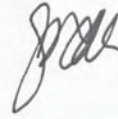
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I hereby declare that the material in this thesis is my own except for quotations, excerpts, equations, summaries and references, which have been duly acknowledged.

17TH AUGUST 2011



VOO SZE YEE @ GRACE
PE2008-8436C

CERTIFICATION

NAME : **VOO SZE YEE @ GRACE**

MATRIC NO. : **PE2008-8436C**

TITLE : **THE RELATIONSHIPS BETWEEN ROLE CONFLICT, JOB SATISFACTION, ORGANIZATIONAL COMMITMENT AND TURNOVER INTENTION AMONG AUDITORS IN SABAH.**

DEGREE : **MASTER IN BUSINESS ADMINISTRATION**

VIVA DATE : **11ST JULY 2011**

DECLARED BY

1. SUPERVISOR

Signature

Prof. Madya Dr. Hjh. Arsiah Hj. Bahron



Ms. Sharon Cheuk

PERPUSTAKAAN
UNIVERSITI MALAYSIA SABAH



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VOO SZE YEE @ GRACE
17th AUGUST 2011

ABSTRACT

THE RELATIONSHIPS BETWEEN ROLE CONFLICT, JOB SATISFACTION, ORGANIZATIONAL COMMITMENT AND TURNOVER INTENTION AMONG AUDITORS IN SABAH

This study aims to determine the relationships between role conflict, job satisfaction, organizational commitment and turnover intention among auditors in Sabah. A total of 105 auditors from four chosen audit firms responded to a questionnaire with standardized measures. The research findings support role conflict, job satisfaction and organizational commitment have a direct relationship with turnover intention in the audit environment. Organizational commitment is also found to mediate the relationship between job satisfaction and turnover intention. Limitations, implications of the findings and suggestions for future research are discussed.

ABSTRAK

Kajian ini bertujuan untuk memastikan hubungan antara konflik peranan, kepuasan kerja, komitmen organisasi dan niat untuk berhenti kerja antara juruaudit di Sabah. Sejumlah 105 juruaudit dari empat firma audit telah memberi maklumbalas berhubung kaji selidik berdasarkan standad yang diberikan. Hasil kajian mengesahkan konflik peranan, kepuasan kerja dan komitmen organisasi mempunyai hubungan langsung dengan niat untuk berhenti kerja. Komitmen organisasi juga didapati mempengaruhi hubungan antara kepuasan kerja dan niat untuk berhenti kerja. Keterbatasan, implikasi dari penemuan and cadangan untuk kajian di masa depan juga dibincang.

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CHAPTER 1

INTRODUCTION

1.1 Overview of Audit Industry

Audit is a process of evaluation performed to a person, organization, system, process, company or product. In accounting term, audit refers to an act to ascertain the validity and reliability of the information given, and to provide an assessment of the company's internal control system. The primary aim of the audit today is the verification of financial statements (Ojo, 2006), that is to express an opinion on the 'subject' audited, based on the work done on using nonstatistical methods for sample planning, selection and evaluation (Thomas, James & Bethane, 2002) as to provide reasonable assurance that the statements are free from material error.

Traditionally, audit is mainly carried out to assess a company's financial information and to provide a reasonable assurance on the company's internal control system. This service is called financial audit and it is a mandatory for every registered company to perform financial audit annually under the Company Act 1965 (CCH Company Law Editors, 2008). Auditors act as a third party to provide independent verification and credibility to the financial statement (Ojo, 2006). An auditor whom performed financial audit is called a General External Auditor. However, the word 'audit' is not confined to financial audit only. As the audit industry evolved, non-traditional areas are developed, such as audit on the company's information system, company's management performance and environmental concerns (Arrunada, 1999). As a result, there are now new audit professionals who specialize in security audits, information systems audits and also the environmental audits.

Chartered accounting firms (or also refer as audit firms in our context), which range from one to two person offices to international firms employing thousands of professional members, are generally the primary providers of audit



services (Fisher, 1995). It is observed that the audit industry is dominated by an oligopoly of the four largest international companies, which also commonly known as the Big Four in the market (Beattie, Goodacre & Fearnley, 2003). The members of Big Four are Ernst & Young, KPMG, Deloitte and PwC (PricewaterhouseCoopers) (Francis & Yu, 2009), and they have branches and offices that located all over the world. In the United Kingdom, the Big Four dominates the audit of the Financial Times Stock Exchange (FTSE) companies and reportedly held 90% of the market measured by audit fees in year 2002 (Beattie *et al.*, 2003). Table below provides a brief summary of the Big Four, with information extracted from their companies' websites and annual reports, respectively:-

Table 1.1: Summary of the members for Big Four – Ernst & Young, KPMG, Deloitte and PwC

Name	Ernst & Young	KPMG	Deloitte	PwC
Founded / formed in year	1989	1987	1845	1849
Presence of member firms	Presence in 140 countries.	Presence in 146 countries.	Presence in 150 countries.	Presence in 154 countries.
Global revenues	USD21.3 billion (for the financial year ended 30 th June 2010)	USD 20.63 billion (for the financial year ended 30 th September 2010)	USD 26.6 billion (for the financial year ended 31 st May 2010)	USD 26.6 billion (for the financial year ended 30 th June 2010)
Total number of staffs worldwide (approximate)	141,000	138,000	170,000	162,000
Local data (Malaysia)	2,300 staff 16 offices	66 partners 1,600 staff 10 offices	Not available	Not available

Sources: Annual report from respective companies

In the Malaysia setting, the audit industry is dominated by the Big Four and additional two large-scale audit firms, namely BDO and Crowe Horwath (Oh, 2011). Together, these firms audited 73% of the public interest entities (PIEs) in Malaysia, which include listed companies and the banking and financial institutions. These listed companies as audited by the Big Four and additional two large-scale

audit firms formed 93% of the total market capitalization of the companies listed on Bursa Malaysia (Oh, 2011).

Audit, being one of the service industry is naturally labor intensive (Hsieh, Lee & Lo, 2009). In other words, the key success factor of an audit firm relies on its manpower which is measured by the level of staffs' competency. Henceforth, the attitude and behavior of employees are paramount as it projects a company's image. The importance of human resource is also highlighted in the Audit Oversight Board (AOB) report released on 31st March 2011 that stressed human resource is the primary factor in ensuring high audit quality, therefore it is significant to ensure appropriate workload of partners and other members of the audit team, as well as attracting new talent through a conducive work environment (Oh, 2011).

To maintain and enhance the staffs' competitiveness, audit firms frequently conduct technical training and also workshop targeted to improve the employees' soft skill. Hildebeitel, Leaby and Larkin (2000) noted that large accounting firms normally incur a substantial amount in recruitment and training costs. Large audit firms also provide a better remuneration package as compared to other small-scale audit firms, such as higher salary, provision for tuition fees for professional development and membership fees for professional accountancy body, to name a few. Despite the attractive package offered by these large audit firms, the staff turnover rate remains high (Hsieh *et al.*, 2009). Therefore, it is a nightmare for an auditor to leave an audit firm especially for the members of Big Four, due to the unrecoverable training cost (William, 1993) and negative influence on the entire business operation (Hsieh *et al.*, 2009) in terms of efficiency losses (Law, 2005). Thus, it is essentially important to recognize the factors that lead to the auditors' turnover in order to preserve the company's long-term growth. In relation to this, this study is designed to examine the relationships between role conflict, job satisfaction, organizational commitment and turnover intention among auditors in Sabah.

1.2 Problem Statement

The profession of public accounting has traditionally documented having exceptionally high turnover rate (Nelson & Sutton, 1990; Robertson, Cooper & Williams, 1990; Connor, Hooks & McGuire, 1999). It was reported that the turnover intentions are the highest among staff with two to four years experience in Bullen and Martin (1987) study found in the research work by William (1993). In Grossman (1967) and Capin (1969) studies found in the work of William (1993), most national accounting firms retained less than 25 percent of their employees for four years and the retention rate was 85% after one year, and declined to 38% after five years and only 18% after ten years.

High employees' turnover rate has become a serious problem among the big players in the audit industry as it translates into unrecoverable substantial professional training expenses (Hiltebeitel *et al.*, 2000), undesirable higher costs and efficiency loss (Law, 2005) that might results in poor audit quality (Hill, Metzger & Wermert, 1994; Sanusi & Iskandar, 2007) which affects the public confidence with the accounting profession. The impact of a staff leaving a large-scale audit firm is observed to be greater as compared to the small-scale audit firm due to the two reasons. Firstly, large audit firm especially the members of the Big Four spends heavily on employees' trainings (Hiltebeitel, Leauby & Larkin, 2000) as compared to the small-scale audit firms. Secondly, the big corporate is normally audited by the large-scale audit firms due to their expertise and availability of resources. Henceforth, the departure of an auditor from a large-scale audit firm would translates into efficiency loss due to insufficient manpower and this might affects the audit quality (Hill *et al.*, 1994), and ultimately bring down the company's image.

From the past research, high turnover rate in the audit firms is commonly relates to a number of factors such as job stress (Law, 2010; Hasin & Omar, 2007), low job satisfaction (Udo, Guimaraes, & Igbaria, 1997; Hasin & Omar, 2007; Hsieh *et al.*, 2009), leadership style (Hsieh *et al.*, 2009) and organizational commitment (Reed, Kratchman & Strawser, 1994; Law, 2005). Recent empirical research in the accounting literature found that role conflict is also associated with

the auditors' turnover intention due to the auditors' work nature (Viator, 2001; Lui, Ngo & Tsang, 2001; Law, 2010). While most of the accounting literature that focus on turnover intention were studied in countries like the United States (Reed, Kratchman, & Strawser, 1994; Viator, 2001; Law, 2005; Tiarniyu, 2009), Hong Kong (Lui, Ngo, & Tsang, 2001; Law, 2010), and Taiwan (Hsieh *et al.*, 2009), few extant studies have attempted to examine the relationships between role conflict, job satisfaction and turnover intention, using organizational commitment as mediator, especially in the Malaysia context. The present study attempts to develop and empirically examine the relationships between role conflict, job satisfaction, organizational commitment and turnover intention among auditors in Sabah. The next section presents the research questions and objectives.

1.3 Research Questions

This study attempts to address the following research questions:

- a. What is the relationship between role conflict and turnover intention among the auditors in Sabah?
- b. What is the relationship between job satisfaction and turnover intention among the auditors in Sabah?
- c. What is the relationship between organizational commitment and turnover intention among auditors in Sabah?
- d. What is the relationship between role conflict and organizational commitment of auditors in Sabah?
- e. What is the relationship between job satisfaction and organizational commitment of auditors in Sabah?
- f. Does organizational commitment mediates the relationship between role conflict, job satisfaction and turnover intention among the auditors in Sabah?

1.4 Research Objectives

In an attempt to solve the problem as highlighted above, the research objectives are further defined as below:-

- a. To determine the relationship between role conflict and turnover intention among auditors in Sabah.

- b. To determine the relationship between job satisfaction and turnover intention among auditors in Sabah.
- c. To determine the relationship of organizational commitment and turnover intention among auditors in Sabah.
- d. To determine the relationship between role conflict and organizational commitment among auditors in Sabah.
- e. To determine the relationship between job satisfaction and organizational commitment among auditors in Sabah.
- f. To examine the mediating effect of organizational commitment on the relationship between role conflict, job satisfaction and turnover intention among the auditors in Sabah.

1.5 Scope of Study

The scope of this study is being limited to the auditors work in Sabah, Malaysia. Specifically, the samples are drawn from auditors who currently employed by four large audit firms in Sabah, namely Ernst & Yong (EY), KPMG Peat Marwicks (KPMG), Deloitte Kassim Chan (Deloitte) and Crowe Howarth (Howarth). All level of auditors is included: the associate (junior staff), senior auditor, audit manager, senior audit manager and audit partner; except for the interns and trainees as their leaving is guaranteed upon the completion of their training course. Audit firms are mainly located in the big cites or developed towns, such as Kota Kinabalu city, Sandakan town and Tawau town due to their big population and centralized business base. This study will focus on auditors working in Kota Kinabalu city, Sandakan town and Tawau town as the representative of the population.

Turnover can be categorized as voluntary or involuntary leaving. This study will focus on the voluntary turnover intentions only. The early research work carried out by Bullen and Flamholtz (1985) found that there were three general categories of determinants for voluntary turnover, which are (1) External determinants such as the state of economy and employment perceptions; (2) Organizational commitments such as job autonomy and responsibility, role clarity and job satisfaction; and (3) Individual determinants such as age, tenure, gender

and personality. These three factors can be translated into (1) external environment, (2) organizational and (3) individual factors. Within this area, the factors related to the organizational will be examined under this scope of study due to its importance and contribution to the study of organizational behavior.

Focusing on the organizational factors, researchers noted that job satisfaction is an effective predictor of turnover intention (Dole & Schroeder, 2001; Hasin & Omar, 2007; Muliawan, Green, & Robb, 2009; Hsieh *et al.*, 2009). Studies also found that organizational commitment has a pervasive effect on intention to leave in the public accounting sector (Stallworth, 2003; Ketchand & Strawser, 1998). Another important variable that said highly relevant to the audit industry is role conflict due to the nature of work of auditors to act as boundary spanners (Smith, 1990) and researchers suggested that role conflict is positively related with turnover intention (Viator, 2001). It is noted that role conflict is used widely to measure work stress, but stress itself is not the focus point of this current study as the researcher only intend to examine the effect of role conflict on auditors' turnover intention. To conclude, this study is undertaken to examine the relationships between role conflict, job satisfaction and turnover intention among auditors in Sabah, and further examine the mediating effect of organizational commitment between the independent and dependent variables.

1.6 Significance of Study

The empirical literature on studying turnover intention in Western countries is well established. However, little research had been done focus at different geographical area, for example in Sabah. The study of auditors' turnover intention in Malaysia is limited in scope, which is mainly concentrated on job stress and job performance. Past research on accounting literature focus on turnover intention were carried out in the United States, Taiwan and Hong Kong used variables such as job stress, job satisfaction and personality trait, but less was found using organizational commitment as potential predictor. Organizational commitment has consistently been viewed as an important determinant to employee retention among engineers (Chang, 2006) and information system auditors (Muliawan, Green and Robb, 2009). Research has shown that employees with high

commitment level tend to be emotionally attached to the organization and they will feel an obligation to serve the company well. Therefore, it appears to be a gap in understanding how the role conflict and job satisfaction can relate to turnover intention, and having organizational commitment as mediator in the employee turnover model in the audit environment. Research relating on the relationships between role conflict, job satisfaction, organizational commitment and turnover intention is thus needed. The research findings would help to bridge the gap in literatures study in the audit industry. It is also contribute to the existing knowledge to the service industry.

By conducting this study, the research findings are useful for the employers especially in the large audit firms to improve their employees' retention scheme. The Audit Oversight Board (AOB) executive chairman Nik Mohd Hasyudeen Yusoff stressed the importance of human resource to ensure high quality audit (Oh, 2011). Thus, it is important for the management to be aware of how to retain the existing workforce and enhance the employees' commitment level at the same time. Therefore, this study would provide an insight for the management to understand the relationships between role conflict, job satisfaction, organizational commitment and turnover intention in order to develop high committed employees within the organization.

1.7 Operational Definitions of Key Variables in This Study

1.7.1 Turnover Intention

Having the intention or behavior to leave the organization voluntary (Muliawan *et al.*, 2009; Atang, 2010).

1.7.2 Role Conflict

A situation where an individual receives conflicting information and requests (Muliawan *et al.*, 2009) or when there is incompatibility between expectations and demands from various workgroups (Harris, Artis, Walters & Licata, 2006; Fisher, 1995).

1.7.3 Job Satisfaction

The degree of positive emotions that an employee has towards a work role (Fisher, 1995; Currivan, 1999).

1.7.4 Organizational Commitment

The strength of an individual's identification with, and involvement in, an organization (Muliawan *et al.*, 2009).

1.8 Organization of the Report

The report is organized into five chapters, which is Introduction, Literature Review, Research Methodology, Research Findings, and Discussion and Conclusion respectively.

1.9 Summary

In Malaysia, many audit firms are suffering from high turnover rate due to the negative consequences such as unrecoverable training cost, productivity and efficiency loss, to name a few. Yet, very little research has been done in Malaysia context to determine why auditors leave an audit firm voluntarily. Thus, the present study aims to address the issues related to turnover intention among auditors in Sabah, in particularly study the relationships between Role Conflict, Job Satisfaction, Organizational Commitment and Turnover Intention. This chapter presents an overview of the audit industry and highlights the turnover problem to justify why this study is indeed necessary. Research questions, research objectives, scope of study and the significance of this study are also being discussed and included.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of relevant literature for the study. Both Theory of Reasoned Action and Role Theory are integrated in this section to form predictions on the turnover intention among the auditors in Sabah. This chapter defines key concepts and terms of reference of the variables studied, and discusses relevant past empirical research.

2.2 Theory

This section discusses two theories that used to support the research framework, namely the Theory of Reasoned Action and Role Theory.

2.2.1 Theory of Reasoned Action

Turnover process models is best explained using rational decision making models such as Ajzen and Fishbein's (1980) Theory of Reasoned Action, which stresses the importance of behavioral intentions in influencing employees' turnover. Griffeth and Hom (2004) suggested three common research on the manner on which attitudes and intentions get translated into behavior, which are perceptions of behavior control, behavior consistency, and the role of emotional arousal.

Theory of Reasoned Action was later developed into the Theory of Planned Behavior as reported in Ajzen (1991) study found in the research work of Griffeth and Hom (2004), which suggests that the intentions to perform a behavior are the more immediate precursors to actual behavior. Accordingly, intentions are a function of attitudes toward executing the behavior, which are in turn a function of beliefs or values pertaining to the consequences and desirability of such consequences of executing the behavior; and subjective norms concerning the behavior, which are a function of beliefs or values in relation to what important



referents think about the behavior and one's motivation to comply with those referents (Griffeth & Hom, 2004).

In reality, individuals that having the behavior intention are not necessary perform the intention, which introduce the importance of the role of behavioral control. Perceived behavioral control should moderate the effect of intentions if the behavioral control is positive. Therefore, in a turnover context, turnover intentions may only lead to turnover when individuals believe that they have control over the decision to quit. Individuals might perceive less control over the decision to leave due to family commitment or financial constraints. Moreover, individuals become increasingly attached in an organization over time, making it more difficult to leave (Becker, 1960) especially when the organizational commitment is high.

2.2.2 Role Theory

Role theory assumes that individual lives are spent acting out a variety of 'roles' both within and outside the organizational context (Fisher, 2001). As cited by Fisher (2001) using Katz and Kahn's research work, these roles is assumed to be a function of social setting rather than of the individual's own personality characteristics. Fisher (2001) suggested that every position within an organization could be considered as a specific role into which an individual is "socialized". Under the role episode model, the process of socialization happens when a role senders directly or indirectly communicating to the role incumbent (focal person) their expectations of the incumbent's responsibilities.

An individual experiences role ambiguity when he or she is unsure about the goals of the job or the method of performing the work is unclear (Johns and Saks, 2007). Scholars Johns and Saks (2007) further elaborated that there are three elements that can lead to ambiguity, which are (1) the organizational factors, for example the middle management might fail to provide the 'big picture' as they are not in the upper management level; (2) the role sender, for example role senders have unclear expectations of a focal person, or the message is not effectively communicate between a role sender and a focal person; (3) the focal

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