

## **The Audit Firm Performance: A Study of Non-Big 4 Firms in Thailand**

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*This research examined the relationships between antecedences (audit risk management effectiveness: ARM) and consequences (audit firm value: AFV) of audit firm performance (AFP). The 427 completed data were collected from Non-Big 4 in Thailand by questionnaire. Regression statistic technique is chosen for analyzing. A result shows that audit firm risk management effectiveness overall significant positively relationships with audit firm value and audit firm performance. Besides, audit firm performance also significant positively relationships with and audit firm value. Therefore, all hypotheses are supported. A discussion is effectively implemented of the theoretical contributions, practical implications, and future research is also presented.*

**Keywords:** Audit firm risk management effectiveness, audit firm performance, audit firm value, Non-Big 4

### **1. Introduction**

As present, business firms are facing a strong competition mechanism. All businesses attempt to manage their firm on how to achieve their organizations' objective. In the auditing industry, audit firms are one of the assurance service businesses offering audit, consult, advisory, tax management, and service related audit of several kinds of businesses. The main responsibility of audit firms is assurance services, particularly financial audit. Today, audit firms can be divided into 2 groups; first, large audit firms that well known in Big 4: Deloitte, PWC, Ernst & Young, and KPMG, and second, small audit firms that aside from the Big 4 as well known in Non-Big 4. The Big 4 tend to have higher audit quality than Non-Big 4 (Zerni et al. 2010) because it is an international professional service networks in accountancy and professional services while Non-Big 4 is a local company.

In Thailand, under the strong competitive advantage, Non-Big 4 is necessary an effectiveness to take its roles with audit performance to benefit more chance of competitive advantage over Big 4. Due to the objective of audit firms both Big 4 and Non-Big 4 are attempted to uses the potential of audit service activities for offering and selling an assurance services to their clients (Herda and Lavelle 2013). Therefore, the critical challenge of Non-Big 4 is how to increase an effective of audit strategy which leads to enhance of audit firm performance and audit firm value.

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## Wittayapoom & Leemanonwarachai

The risk management effectiveness is very important to Non-Big 4 to enhancement firm objective and competitive advantage in audit market. Non-Big 4 provided the business risks can be caused by many determinants such as external environment, business clients, and engagement of service to increase firm performance. To conduct risk, Non-Big 4 should be manage by Non-Big 4 partner and distributed to audit staffs in practice and guidance.

Therefore, risk management will be more effective when it's clear, sufficient, appropriate in policy, and following under the operation circumstance. Hence, audit firm risk management effectiveness is intended to help Non-Big 4 to update rules, standard of work, guidance, and compliance to gain more firm performance. Normally, the main reason of risk management is part of the audit firm that Non-Big 4 uses to operate audit strategy operated planning for reducing or mitigating a significant error and avoid failings or weakness audit performance. Hence, if Non-Big 4 focuses on risk management strategy such as management commitment; planning process integrative; consistent scope of work; and culture supportive the consequently is effectiveness. Therefore, risk management effectiveness very important to Non-Big 4 that audit firm will achieved audit firm performance (COSO 2013).

Audit firm performance challenges the audit firm due to its complexity and significant value to stakeholders. Audit firm, particular Non-Big 4 will be success when it can reduce risk in audit job or be higher in best professionalism in audit job. This is due to gain in audit firm performance, Non-Big 4 should have a good strategy, operation process, reporting, and good technique to control their staffs to ensure that firm wills success in their objective. In this study, audit firm performance is defined as audit firm success in operating services to their clients with efficiency and effectiveness of strategy, operation, reporting, and compliance. To ensuring that Non-Big 4 can enhance sufficient performance, it should improve the firms' management by increasing net profit, growth sale, market share, and maintain their audit quality. Moreover, Non-Big 4 should look for new client groups or new service to expand their audit market and add values for the firm into the professional market.

Increasing audit firm value is the benefit to the audit firm consider overall to Non-Big 4 operation to achieve the balanced business, survival, and sustainability under competitive situation. In this research, audit firm value refers to Non-Big 4 and client services activities relationships are beneficial to audit firms. Examples of audit firm value include creating value, improving visibility, and embedding risk management. Moreover, audit firm values are firm image and trustworthiness from clients.

Based on the discussion above, the research question of this research addresses: 1) how dose audit firm risk management effectiveness relate to audit firm performance and firm value?, and 2) how does audit firm performance relate audit firm value?. This research involves the collection of data that is analyzed as a quantitative approach. Therefore, the objectives of this research are are 1) to examine the relationship between audit firm risk management effectiveness (commitment, planning process integrative, consistent scope of work, and supportive culture) and audit firm value of Non-Big 4 in Thailand, 2) to examine the relationship between audit risk management effectiveness (commitment; planning process integrative; consistent scope of work; and supportive culture) and firm performance of Non-Big 4 in Thailand, and 3) to examine the relationship between audit firm performance and audit firm value of Non-Big 4 in Thailand.

This research builds upon previous research to address in the area of firm performance, risk management effectiveness, and firm value based upon contingency theory to develop and create the conceptual model of this study. Therefore, scope of this research highlights the

relationship between audit firm performance and audit firm value. The conceptual model is drawn from previously auditing studied concerning; financial, management, and others topic related to audit firm and firm value. The contingency theory is utilized to provide a better understanding the conceptually of audit firm performance and help to explain the research framework. It concerns an organization's performance and human acts which required in differences of operation and control (Nicolaou 2000; Jensen and Wygant 1990) by considered each situation to address specific private firm strategy (Robertson and Chetty 2000). The organizational context indicates that contingencies result in firm value of Non-Big 4. However, based on the insufficient construct measurements from several previous studies, this research is a challenge to clarify audit firm performance and audit firm value of Non-Big 4 in Thailand.

This paper is organized as follows. The first part details a literature review and the theoretical foundations to develop the conceptual framework. The second part deals with the research methodology, including the questionnaire design and measurements of variables. The next section describes the statistical analysis and results. The final part presents the discussion of findings, limitations of the study, future research, and conclusions.

## 2. Literature Review

At present, Non-Big 4 possess the required risk management effectiveness to avoid and mitigate associated risks of audit work by having and/or obtaining appropriate and sufficient industry and business knowledge of their client. Risk management system consists of management style and philosophy, linked with business strategy, and objective setting in business operation (Arena et al. 2010) and also moved from the entity area of the firm to the corporate of the firm (Arena et al. 2010; Power 2009). Moreover, sufficient and appropriated risk management procedure may present firm performance by senior executive managements and board of director policies. Hence, the senior managements and board of directors must understand how to manage risk and gain effectiveness in risk management procedure as the consequence organizational process (Power 2009). The clear and sufficient risk management policies can make appropriate risk management effectiveness and a firms' performance perspective (COSO 2013).

In order to audit firm risk management effectiveness is intended to reflect that Non-Big 4 has to updated rules, regulations, working standards, guidance, and especially a quality of compliance to gain audit firm performance. The objective of Non-Big 4 often uses the potential of audit service activities to offer and sell their assurance services (Herda and Lavelle 2013). The Non-Big 4 necessary effectiveness to take its role with audit performance that to be enhances business competitive advantage against the Big 4. Therefore, business risks can be caused by many determinants to the Non-Big 4 such as external environment, business clients, or engagement. Risk management should be informed to Non-Big 4 partner and distributed to audit staffs both in practice and guidance. If the Non-Big 4 focuses on risk management strategy by management commitment; planning process integrative; consistent scope of work; supportive culture; and embedded in organizational process, it will resulted in the increasing of audit firm performance. Hence, the challenge of the Non-Big 4 is to achieve superior business effectiveness in audit work. Consequently, audit firm performance and audit firm value are increase.

Commitment is important for audit firm risk management and reflects firm performance. Due to Non-Big 4 trend to reinforce and developed risk strategy competes by providing more resources per audit. Hence Non-Big 4 tries to offer different terms of productivity for their clients. The productivity is probably related to the market power of Non-Big 4. If Non-Big 4 has failure to

## Wittayapoom & Leemanonwarachai

conduct risk management effectiveness, it might harm audit firm performance (Dey and Robin 2011). On the other hand, Non-Big 4 also needs a planning process integrative to achieve audit firm risk management effectiveness. Planning process integrative refers to planning exercise which ensures participation of all audit firm staffs and is affected by Non-Big 4. The objective of planning process integrative is to examine both economic and social costs and benefits, to determine the most appropriate option and plan a suitable course of action in order to serve audit firm risk management.

Here, Non-Big 4 aim to attain the higher audit quality (Zerni et al. 2010), they needs to strengthen their sufficient and appropriate services, so that, audit firm performance will be achievable. To conduct firm performance, Non-Big 4 also needs a cultural supportive firm member background for differences firm risk management to their audit staff for achieving the risk management policy.

Supportive cultural is based on individual norm or ritual of those firm members belief (Jian and Jeffres 2006). Supportive cultural maintains human attitudes relationships within Non-Big 4 staffs regarding belief in risk management policy mechanism. Moreover, to embed in organizational process of audit firm budgetary support for audit firm staffs' activities or participate in firm operation, it can reduce audit firm risk and increase in transparency.

As aforementioned above, this research assumes that audit risk management effectiveness is positively related to audit firm value and audit firm performance. Therefore, the hypotheses are proposed below.

**Hypothesis 1:** The greater the audit risk management effectiveness is, the more likely that Non-Big 4 will gain greater audit firm value.

**Hypothesis 2:** The greater the audit risk management effectiveness is, the more likely that Non-Big4 will gain greater audit firm performance.

Non-Big 4 adhered to compliance quality was through a mechanism tool for audit firm performance procedure due to the partners of Non-Big 4 is use audit firm performance to reviews and conducts their audit staffs to achieve firm's objective via audit firm policies firms. The Non-Big 4 staffs member's activities with compliance qualities also influence firm performance (Kopp and O'Donnell 2005). To considerable how audit firm performance can be achieved with regards to firm's objective, at least, Non-Big 4 requires to appointment an audit firm partner to implement and monitoring audit process, especially the affect from audit firm risk management effectiveness on audit firm performance. Therefore, Non-Big 4 should be appropriate and complete audit firm performance by all audit firm staffs under a good strategy, operation process, reporting, and good technique to control their staffs to ensure that firm wills success in their objective.

In this research, audit firm performance refers to audit firm success in operating services to their clients with efficiency and effectiveness of strategy, operation, reporting, and compliance with law and regulation. To ensure Non-Big 4 can enhances and sufficient performance, they should improve the firm management by increase net profit, growth sale, market share, and maintain their audit quality. Moreover, the Non-Big 4 should look for new client groups or new services to expand audit market and add value for the firm into the professional market.

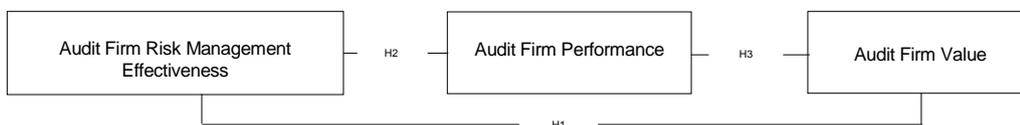
As described, this research focuses on and expects a positive relationship between audit firm performance and audit firm value. Thus, it leads to the hypothesis posited below.

**Hypothesis 3:** The greater the audit firm performance is, the more likely that Non-Big 4 will gain greater audit firm value.

### 3. The Methodology and Model

Based on the literature, Figure 1 provides a conceptual model clarify the relationships among audit firm risk management effectiveness, firm performance, and audit firm value. In order to test the hypotheses, the sample selection and respondents for this research are composed with Non-Big 4 in Thailand. Data were collected from database provide by The Federation of Accounting Professions under the Royal Patronage of His Majesty the King (FAP). The total number of mailed questionnaires was 452. Deducting 32 undeliverable from the original mailed survey (unclear address 2 mailed, missing address 7 mails, unclear participant 5 mailed, and relocate address 18 mailed), the valid number of mailed questionnaires was 427. Thus, the effective response rate was approximately 20.14%.

**Figure 1: A model of audit firm performance relationships**



The non-response bias (Armstrong and Overton 1977) was evaluated after three weeks of questionnaire sending. So, the pre-notification is used to follow up respondents. This procedure assumes that late respondents are not different from non-respondents comparing relatively early and relatively late responses in each mailing by use of t-test of the regression analysis method. The regression results reveal that no significant differences existed at  $\alpha=0.05$ . In addition, this research applied a test to compare the demographics of the sample (respondents' e.g. professional experience). There is no structure difference between early and late respondents. Thus, the effect of non-response bias on the results of this research was considered minimal.

The mailed questionnaire was developed using a two-stage procedure that included both pre-tests and the refinement of the scales developed for all variables. The pre-test was used to understand the context and the result after pre-test was used to assess the audit firm value and audit firm risk management effectiveness relationships. The questionnaires were modified and developed to increase the appropriateness and validity of sentences or vocabulary. The final surveys were administered by a cover letter that included an explanation of the objectives of the study along with the questionnaires and a prepared envelop. Questions to the respondents were in Thai language, with five-point Likert-type scales ranging from "1 = strongly disagree" to "5 = strongly agree". The first part of questionnaires deals with external factor details. The next part of the questionnaire deal with personal information of respondent such as in gender, age, education, personal status, and years of professional experience. Results shown that 54.65% were female; age range over 40 years (79.07%); bachelor's degree or higher (51.16%), married (53.49%); and 79.07% higher than 15 years of professional experience. The third part deal with the variables of audit firm risk management effectiveness, audit firm performance, and audit firm value. The final part of the questionnaires included open-ended items for respondents to provide any further suggestions and opinions.

With regard to the survey instrument, all scale items were scored by existing developed scales and underwent a complex task by pre-test of the scales from various management, risk

## Wittayapoom & Leemanonwarachai

management, internal auditing and control, accounting, and auditing studies to reduce the mitigation of errors (Morales et al. 2007). The principal component analysis was used to check whether all items belonged to their respective construct. The scales are computed to ensure a reliability and validity that used of Cronbach's alpha coefficient to test the reliabilities (higher than 0.7 as satisfactory) (Cronbach 1951). Therefore, audit firm risk management was obtained via twelve items indicating the extent of risk management mechanism. The measures cover the transferring commitment, planning integrative, consistent scope of work, continuous and evolving process, and cultural supporting. The audit firm performance was measured using nine items to capture the extent that audit firm benefits the audit firm risk management concerning ethical and audit professional standards practice such as compliance with law and regulation, independence, objectivity, integrity, due care, audit technique, and responsibility. Finally, audit firm value was measured by five items of firm image, professional services, trustworthiness, and firm sustainability.

In this research, reliability is estimated by Cronbach's alpha coefficient, the most common method accepted by researchers (Francis 2001). The Cronbach's alpha coefficient indicates the degree of internal consistency among items in the questionnaire (Nunnally and Berstein 1994). This study found that the Cronbach's alpha coefficients are in the range from .782-.840. To conduct the validity check of the questionnaire items, the construct validities need to be proven by factor analysis. A principal component factor analysis using Varimax rotation was performed for each construct using the 0.40 criterion as a significant item loading. All factor loadings greater than the cut-off value of 0.40 are adopted from Hair et al. (1992) who interpreted the significance of factor loadings of 0.30 as being significant, 0.40 as being more significant, and 0.50 as being very significant. Here, the construct factor loadings are in the range from .734-.925.

**Table1: Results of Factor Loadings and Cronbach's Alpha Coefficients**

Items	Factor Loadings	Cronbach's Alpha
Audit Firm Risk Management Effectiveness (ARM)		
Planning Integrative (PLI)	.925-.925	.829
Commitment (CMT)	.830-.848	.782
Consistent Scope of Work (CSW)	.834-.884	.809
Evolving and Supportive Culture (ESC)	.843-.917	.912
Audit Firm Performance (AFP)	.737-.919	.940
Audit Firm Value (AFV)	.734-.916	.901

As describes above, all factor loadings and Cronbach's alpha coefficients have shown the statistics in terms of average scores and range of key variables and also the overall reliability of all key variables (Francis 2001). Therefore, Table 1 shows the results of the factor analysis, with the factor loadings and Cronbach's alpha coefficient of the multi-items measurement scales used in the questionnaires. The measure validation are presented under all factor loadings that greater than 0.40 cut-off that Nunnally and Bernstein (1994). All the value of alpha coefficients in this model is greater than 0.70.

### 4. The Findings

In this research, regression analysis is employs to formulate the ordinary least squares regression (OLS) for supplemented the hypotheses testing. The OLS is a linear regression and responsive to the pooling closer of the categories that permit the parameters in the model that

## Wittayapoom & Leemanonwarachai

the researcher can interpret the model parameters when it is not true (Samelson et al. 2006). They are within acceptable rang, indicating that there are no multicollinearity problem. Therefore, this study performs an appropriate and statistical analysis of the data collection employing the ordinal regression with three equations as follows.

Equation 1:  $AFV = \beta_{01} + \beta_1 PLI + \beta_2 CMT + \beta_3 CSW + \beta_4 ESC + \varepsilon$

Equation 2:  $AFP = \beta_{02} + \beta_5 PLI + \beta_6 CMT + \beta_7 CSW + \beta_8 ESC + \varepsilon$

Equation 3:  $AFV = \beta_{03} + \beta_9 AFP + \varepsilon$

Where; AFV = Audit Firm Value, AFP = Audit Firm Performance, PLI = Planning Integrative, CMT = Commitment, CSW = Consistent Scope of Work, ESC = Evolving and Supportive Culture, and  $\varepsilon$  =Error

Table 2 illustrates the results of descriptive statistics and correlation matrix for all variables. Descriptive statistics are described by the mean and standard deviation of each variable. The correlation matrix shows the relation among all variables and also reveals the multicollinearity. The muticollinearity shows the relationships exist among independents variables in the model. In this case, the overall relation between all variables is under .80, meaning the multicollinearity problems are not a concern (Neter et al. 1985).

**Table 2: Descriptive Statistics and Correlation Matrix**

Variables	AFV	PLI	CMT	CSW	ESC	AFP
Mean	20.79	7.76	11.91	11.84	15.26	30.53
Standard Deviation	3.31	1.48	2.03	1.89	3.33	4.37
Audit Firm Value (AFV)						
Planning Integrative x (PLI)	.617**					
Commitment (CMT)	.724**	.720**				
Consistent Scope of Work (CSW)	.628**	.769**	.717**			
Evolving and Supportive Culture (ESC)	.568**	.713**	.651**	.637**		
Audit Firm Performance (AFP)	.643**	.635**	.724**	.628**	.568**	

\*\*P<.05

Table 3 summarizes the results of OLS regression analysis based on regression equation model 1 and 2. Model 1 addresses the relationship between audit firm risk management effectiveness and audit firm value. The result shows that audit firm value is dependent variable of audit firm risk management. Within the relationships, overall of audit firm risk management effectiveness has significant positive relationship with audit firm value. Nevertheless, each of four dimensions, commitment is separately affects the audit firm value at strongly significant level ( $\beta_2 = .00, p < 0.00$ ) with audit firm value. However, when four dimensions are integrated together as audit risk management effectiveness, are influencing on audit firm value. A possible explained and implied that Non-Big 4 which have reach audit risk management effectiveness especially commitment to clients tend to strongly obtain add value. On the other hand, firms which have less planning integrative, consistent scope of work, and evolving and supportive culture also tend to lose value. Then, Hypothesis 1 is supported.

## Wittayapoom & Leemanonwarachai

**Table 3: Results of Regression Analysis<sup>a</sup>**

Independence Variables	Dependence Variable	
	Audit Firm Value	Audit Firm Performance
Planning Integrative (PLI)	.127 (.146)	.132 (.203)
Commitment (CMT)	1.24*** (.536)	.129** (.266)
Consistent Scope of Work (CSW)	.141 (.128)	.146 (.130)
Evolving and Supportive Culture (ESC)	.126 (-.018)	.132 (.198)
<b>Adjusted R<sup>2</sup></b>	<b>.526</b>	<b>.486</b>

\*\*P<.05, \*\*\* P<.01

<sup>a</sup> Beta coefficients with standard errors in parenthesis

Model 2, addresses the relationship between audit firm risk management effectiveness (ARM) with audit firm performance. The result shows that overall of audit firm risk management effectiveness has significant positive relationship between audit firm risk management on audit firm performance. As same as the model 1, the results reveal only one of four dimensions of audit risk management effectiveness, commitment is significant ( $\beta_6 = .04, p < 0.05$ ) with audit firm performance. This implied that the Non-Big 4 tend to have a greater commitment with their clients. It can be seem that the more likely that audit firm attempted to enhance audit quality to increasing audit firm performance. Therefore, Hypothesis 2 is also supported.

Table 4 shows regression analysis based on regression equation. Model 3 identifies the relationship between audit firm performance and audit firm value. The results found that audit firm performance has significant positively relationship with audit firm risk value ( $\beta_9 = .00, p < 0.00$ ). Therefore, the Non-Big 4 required to appointment an appropriate and completed audit firm performance by having a good strategy with audit risk management effectiveness under an operation process, reporting, and good technique to control their staffs to ensure that the Non-Big 4 wills success in their objective. Hence, Hypothesis 3 is supported

**Table 4: Results of Regression Analysis<sup>a</sup>**

Independence Variables	Dependence Variable
	Audit Firm Value
Audit Firm Performance (AFP)	.084*** (.643)
<b>Adjusted R<sup>2</sup></b>	<b>.426</b>

\*\*\* P<.01

<sup>a</sup> Beta coefficients with standard errors in parenthesis

## 5. Summary and Conclusions

The audit risk management effectiveness is important to all kinds of auditors such as audit firm partner, and audit firm staffs. On the other hand, managers, internal auditors, stakeholders, and third parties are involved in decision making to achieve their purpose, especially in work performance. Risk management effectiveness provides performance and increases value to both firms and all kinds of auditors in conducting their work quality, particularly the audit firm.

## Wittayapoom & Leemanonwarachai

The result of this research showed that audit risk management effectiveness significant related on audit firm value. Risk management effectiveness is essential to operate of Non-Big 4. The results also reveal that audit risk management effectiveness is related with audit firm performance.

The research findings can be generalized to a survey of the Non-Big 4 and also the Big 4 in Thailand. The generalizability assumed by this empirical study under the content of management, risk management, internal auditing and control, accounting, and auditing. The theoretical development based on contingency theory is uses to describe the relationships between the context and the phenomenon among each variable. The practical implication of this research currently exists for audit firm. Due to audit firm performance may affected by the conduct of audit firm partners, hence the risk management policy should operate audit risk from auditing work process and also continuous monitoring of auditor staffs to as belief, trust, and following up the internal rules of audit firm.

Finally, the managerial implication beneficial to stakeholders and audit firms' partners to apply and implement audit firm risk management and audit firm performance to make a potential to reduce firm risk and benefit firm value. Therefore, audit firms' partners should reduce audit firm risk as a reasonable assurance policies and provide commitment, planning integrative, consistent scope of work, continuous and evolving process, cultural supportive, and embedding in the organizational process to increase firm performance.

However, some limitations were also identifying. Firstly, the objectives under audit firm performance framework may only be suitable for Non-Big 4 under the environment and context of Thailand. The audit firm partner of Non-Big 4 may amend or indicate each firm's performance that effect audit firm risk management necessary for its own specific circumstance activities into firm strategy. Further research can verify this research objective or add more to different areas or internal audit department in business firms. It would be benefit to the assertion in the views of audit firm partner to understand how to gain audit firm performance. Secondly, this research provides evidence supporting the important of a holistic research approach that considers the audit firm strategies by examining the relationship between audit risk management effectiveness and audit firm value. Another interesting topic may consider benefits from contamination with several disciplines to explore and view firm performance. Finally, the survey data is limited to the respondents who might have responded differently according to their practice. Therefore, future research may combine from several sources such as mix ground and survey.

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## Wittayapoom & Leemanonwarachai

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