

Workplace environment influences outcomes of an audit, study finds

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A more positive workplace environment at large companies can likely reduce the cost and length of an audit, according to a study that includes University of Kansas School of Business researchers.

"Auditors seem to consider firms less risky if employees like their workplace and more risky if employees complain about dysfunction at work," said Felix Meschke, associate professor of finance. "Auditors judge companies with worse workplace environments as more risky, and as a result, they charge higher fees."

Meschke's co-authors on the study are Adi Masli, KU associate professor of accounting, James Guthrie, KU William and Judy Docking Professor in Business, and KU alumnus Minjie Huang, assistant professor of finance at the University of Louisville.

In their paper published recently in *Auditing: A Journal of Practice & Theory*, the researchers examined [employee](#) ratings of large publicly traded companies on the career website and database Glassdoor. They were able to aggregate Glassdoor data from 2008 to 2012 from almost 1,000 S&P 1500 firms and analyze it with the companies' audit reports. This included nearly 100,000 employee satisfaction ratings on Glassdoor.

The interdisciplinary team of accounting, human resources and finance researchers sought to answer a question that has often eluded business scholars.

"We have some sense of what makes an organization good to work for," Meschke said. "But how to quantify it and capture it is a huge challenge."

In both examining the Glassdoor employee ratings and interviewing professional [auditors](#), the researchers found evidence that a negative [workplace environment](#) can increase professional scrutiny of the company.

Auditors also tend to perform more procedures and increase audit

coverage of firms with poor workplace climate, they said.

Auditors likely charge higher fees and take more time on companies with a negative workplace [environment](#) because either they must exert more effort or they likely worry if they miss something they would face repercussions themselves, Meschke said.

"A lot of work on collective employee satisfaction shows it can have influence as a spillover effect," Guthrie said. "When you walk into a restaurant or a retail operation, you can pretty quickly get a sense of how people feel about their sense of work, for example."

Auditors likely experience something similar when working with a large corporation, he said.

"If they get a sense it is a negative work environment, before they release their report, auditors are spending more time taking a look at things," Guthrie said, "and their fees go up and their going concerns increase."

Research has also suggested lower workplace satisfaction can increase chances of issues, such as workplace theft or fraud, for example, which could influence concerns of auditors, the researchers said.

The researchers interviewed four professional auditors for insight on how a clients' workplace environment can influence audit engagement. The auditors argued that the quality of the clients' work environment affected factors such as productivity, effectiveness of job operations, the likelihood of asset misappropriation and efficacy of the control environment.

"For people who are interested in understanding corporate culture, this suggests another data source to capture workplace environment that has

not been used that often," Meschke said. "The Glassdoor data apparently captures some aspects of firm risk that we could not measure until recently."

Huang said the findings imply that corporate culture matters, especially because in a negative [workplace](#) environment employees might be less productive, less effective and more likely to misappropriate assets. There is also a perception that corporate culture lacks integrity and encourages excessive risk-taking that contributed to the 2008-09 financial crisis.

In seeking to build a system that measures and monitors [corporate culture](#), the publicly available Glassdoor data that includes employee ratings could be beneficial, he said.

"Regulators, researchers, auditors and capital market participants can use these ratings to measure how a company is perceived by its insiders in multiple dimensions over a long time period, and they can also analyze detailed reviews with rich contexts by the workforce," Huang said. "For example, before a major corporate scandal breaks out, there are perhaps already traces through deteriorating ratings by employees and their complaints. These could serve as an early and public signal to warn all stakeholders and complement other formal monitoring channels."

The interdisciplinary background of the research team means the study contributes to scholarship in the intersection of accounting, auditing and human resources.

"This project is a great example of bringing researchers together from different disciplines," Masli said. "This enriched the experience because we were able to learn from different perspectives and viewpoints as well as gain new insights into how to approach the project."

Guthrie said the findings could supplement other human resources

research on issues like the economic benefit of reducing employee turnover.

"It's another cautionary tale about the important implications of employee morale and satisfaction," he said. "It should increase a company's concern about the manner in which employees are treated."

Becoming an employer of choice has an upside in being able to attract talent and retain good people, he added.

"It's not something you do overnight. It takes a lot of hard work," Guthrie said. "Companies and managers have to be willing to do that hard work."

More information: Minjie Huang et al. Clients' Workplace Environment and Corporate Audits, *AUDITING: A Journal of Practice & Theory* (2017). [DOI: 10.2308/ajpt-51691](https://doi.org/10.2308/ajpt-51691)

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