

The Impact of Need for Cognition and Ethical Capacity on Auditor's Objectivity¹

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INTRODUCTION

The need for cognition is a mental tendency that significantly explains and predicts individual differences in cognitive processing (Cacioppo and Petty, 1982). The need for cognition is an important element in people's decision-making, which has often been studied and paid attention to by researchers in social psychology studies and recently in behavioral accounting studies. This concept was first coined by Cohen, Stotland, and Wolfe (1955). It was then defined by Cacciopo and Petty (1982) as an "individual tendency to engage in and enjoy effortful cognitive activity." Individuals with a high need for cognition tend to enjoy tasks that are known to be challenging and are not influenced by external stimuli. While people with a low need for cognition have relatively little motivation for powerful thinking, previous studies have shown that when making judgments, people with a high need for cognition are more likely to process all important and relevant information, while people with a low need for cognition pay attention to simple and stereotyped points (Carter et al., 2006).

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Behaviors by the ethical principles (and not necessarily laws) of society can be known as ethical or (social) behavior, and behaviors that violate ethical principles can be known as unethical or antisocial behavior. Beverly et al., 2018). Ethical behavior originates from the free will of individuals because if an individual has behaviors under compulsion and reluctance, that person will have no influence on the action and does not deserve any praise or criticism (Nikdel et al., 2016). The role of ethics is important and effective in actions, behaviors, decisions and choices, and in interactions and communications (Alwani, 2013). There is a belief that paying attention to ethical values in the auditing work environment has made the management actions in the institutions take on the aspect of legitimacy and improves the coherence and balance of the organizational culture in the auditing institutions and also improves the auditors' behavior and increases their efficiency (Khadir et al., 2016). Since the nature of audit work is to comment and respond to the interests of the users of the financial statements against reporting to clients (Nataly et al., 2018) in its general sense, ethics is one of the inseparable and important components in the audit process.

As we know, based on the fundamental principles of auditing, one of the auditor's ethical characteristics is objectivity, i.e., the auditor should not compromise his objectivity with prejudice, partiality, conflict of interest, or influence of others. Objectivity can be defined as the lack of bias in the positive or negative direction of the auditors' opinions and beliefs (Setareh et al., 2019). The auditor's objectivity is considered a type of attitude in auditing that requires a questioning and critical mind when faced with situations where the existence of mistakes caused by errors or fraud is likely. Objectivity also means evaluation far from any prejudice in the field of audit investigations (Gholamarzaei and Hosni, 2016). Cognition and evaluation of ethical issues, and its effect on the auditor's ethical judgment process is significantly useful and necessary for all auditors, accountants, and all people involved in this field. Therefore, to investigate the effect of recognizing ethical issues on the judgment and objectivity of auditors, more empirical research is needed. Also, in the research conducted in Iran, there was no research to measure the effect of the cognition need construct on the judgment of auditors. In this regard, this research seeks to study and

investigate the relationship between the element of cognition need, moral capacity, and objectivity of auditors' judgment.

RESEARCH HYPOTHESES

According to the theoretical foundations and objectives of the research, the hypotheses are formulated as follows:

Hypothesis 1: the need for cognition has a positive and significant effect on the auditor's objectivity.

Hypothesis 2: ethical capacity has a positive and significant effect on the auditor's objectivity.

Hypothesis 3: the need for cognition through moral capacity has a positive and significant effect on the auditor's objectivity.

Hypothesis 4: the need for cognition has a positive and significant effect on the auditor's ethical capacity.

METHODOLOGY

The present research is of correlational type. Auditors working in audit institutions, members of the chartered accountants, and audit organizations, form the target population of this research. The tool of the present research was a questionnaire. The statistical sample of the research includes 222 working auditors in the audit organization and private audit institutions. To measure the dependent variable (auditor objectivity), an audit report, taken from the article of Weinberg and Ohman (2016), was used. Also, to measure the mediator variable (ethical capacity), the questionnaire found in the article of Strobel et al. (2017) was used. To measure the independent variable (need for cognition), the standard questionnaire of Cacciopo et al. (1996) was used. In this study, the combined reliability criterion was used to measure the reliability of the research tool. Also, to measure the convergent validity, the confirmatory factor analysis method was used using factor loading and average variance criteria, and the Fornell-Larcker criteria were used to measure the diagnostic validity. The structural equation model method has been used to test the research hypotheses. Finally, the collected data were analyzed using the Lisrel software, based on the maximum likelihood estimation.

RESULTS AND DISCUSSION

The need for cognition has a positive effect (0.42) on auditor objectivity. This effect is statistically significant since the T-value statistic equals (6.29), which is above 1.96. Therefore, the hypothesis regarding the impact of the need for cognition on the auditor's objectivity cannot be rejected. Ethical capacity (behavior) has a positive effect (0.33) on the auditor's objectivity. This effect is statistically significant because the T-value statistic equals (4.70), which is higher than 1.96. Therefore, the hypothesis regarding the effect of ethical capacity on an auditor's objectivity cannot be rejected. The need for cognition has a positive effect (0.37) on moral capacity. This effect is statistically significant because the T-value equals (4.60), which is higher than 1.96.

Therefore, the hypothesis regarding the effect of the need for cognition on ethical capacity cannot be rejected. As mentioned earlier, the need for cognition has a 37% positive and significant effect (4.60) on ethical capacity. Ethical capacity also has a 33% positive and significant effect (4.70) on the objectivity of the auditor. Therefore, it can be said that the need for cognition through ethical capacity has a positive effect of 0.12 (0.37 x 0.33) on the auditor's objectivity. This effect is statistically significant because the T-value for both is greater than 1.96. Therefore, the hypothesis regarding the impact of the need for cognition through ethical capacity on the auditor's objectivity cannot be rejected.

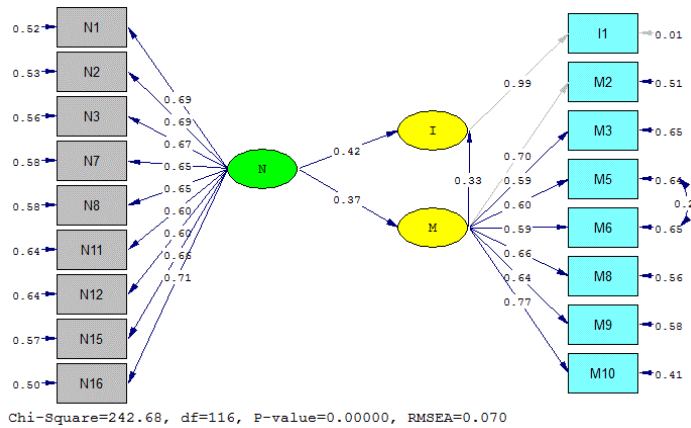


Figure 1. Test of research hypotheses in standard mode

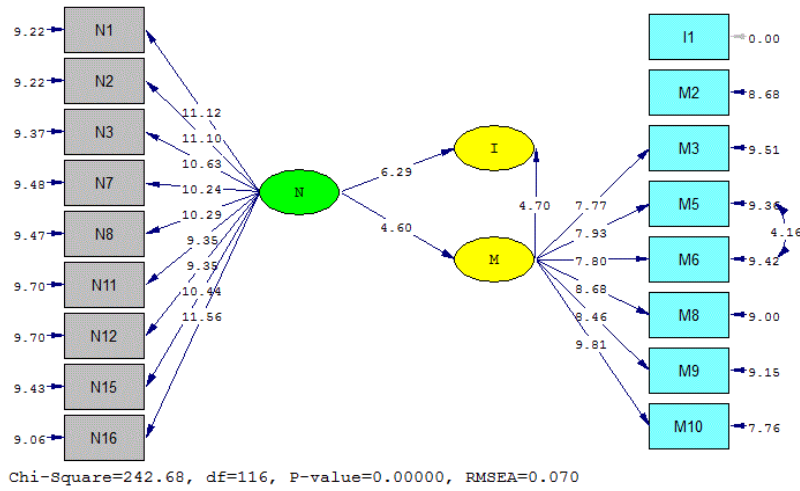


Figure 2. Testing research hypotheses in a meaningful way

CONCLUSION

The evidence of this research confirms that the behavioral and psychological characteristics of auditors have an impact on complying with professional ethics, i.e. judgment about objectivity. Therefore, it can be said that a better understanding of people's personality traits can improve our understanding of professional ethics because the process of moral judgment and decision-making is highly dependent on the ethical capacity of people. In other words, the ethical culture and foundations of auditors are an integral part of professional ethics. Also, the results of this research show that auditors' behavioral and ethical models influence the main and fundamental assumptions of the auditing profession. Therefore, the auditing profession can have a better understanding of the behavior and professional judgment of auditors with the help of psychological and behavioral topics. This can lead to the improvement of policies and policymakers in the auditing profession. Considering the importance of paying attention to topics such as the need for cognition and ethical capacity, audit institutions are recommended to use the scales of need for cognition and ethical capacity in the recruitment process of auditors and hire auditors who need a higher level of cognition and ethical capacity. It is also suggested that the society of Certified Accountants and auditing

institutions hold the necessary training courses to improve the "need to cognition" in auditors. This can lead to the promotion and improvement of auditors' professional judgment and processing style.

Keywords: Objectivity of the Auditor, Ethical Capacity, Need for Cognition, Professional Judgment of the Auditor.

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