



DOES ORGANISATION BEHAVIOUR AFFECT PERFORMANCE OF AUDITING FIRMS?

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Abstract:

The study examines the effect of organizational behaviour on auditing firms' performance. It investigates the influence of Software Technology and customer relationship management on financial performance of PwC, Deloitte and KPMG testing four hypotheses. The data was from secondary sources of financial reports and statements of PwC, Deloitte and KGPM (2011-2016) and statistica.com. Hypotheses were tested using multiple regression analysis and Pearson correlation. SPSS version 17 was used to perform the multiple regression analysis while Smart PLS version 3.2.6 was used to carry out SEM. The first hypothesis revealed that relatively customer relationship negatively predicted financial performance of PwC while software technology positively predicted the financial performance of PwC. Hypothesis two shows that customer relationship and software technology did not jointly and relatively predicted financial performance of Deloitte while in hypothesis three, customer relationship and software technology did not jointly predicted financial performance of KPMG and in hypothesis four, customer relationship management and software technology positively jointly influenced financial performance of both PwC and Deloitte. There have been few studies to made use of Structural Equation Model (SEM) to examine the organizational behaviour in the auditing firms. In this paper, SEM was used to test the effect of Software Technology and Cost on customer relationship on financial performance of the auditing firms. This paper contributes to the impact of organizational behaviour in the auditing firms.

Keywords: People, Organization; Performance; Customer Relationship; Software Technology; Organizational Behaviour.

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1. Introduction

In today's increasingly competitive and demanding workplace, managers need to have good people skills, technology, good customer relationship among other things to succeed. Organisational behaviour is the study of people at work. It concentrates on the influence that individuals, groups, and structure have on behaviour within organisations. Organisational Behaviour is concerned specifically with employment related situations it emphasises behaviour related to jobs, work, customer relationship, employment turnover, productivity, human

performance, and management. In any organisation groups are an essential feature. Very seldom do individuals work in isolation from other co-workers. Because work is a group-based activity, for an organization to function effectively, it requires collaboration and co-operation among its members. Although the term groups and teams are used interchangeably, there is a difference between groups and teams (Mullins, 2010).

Organizational Behaviour is a field of study which has as its primary interest the understanding of groups or individuals within organizations and managing them to work effectively (Johns & Saks, 2009). Components of an open system organization include the following (Cook & Hunsaker, 2001:14-15):

2. Literature Review

Abu-Jarad et al. (2010) noted that the most common measures of organizational performance are financial profitability and growth. Lebens & Euske (2006) noted that organizational performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results Brady et al. (2002) who demonstrated that customer orientation is linked indirectly with organizational quality, customer satisfaction and performance of the organization. Dewan and Min (1997) in their study presented results indicating a positive relationship between technology and performance. Devaraj and Kohli (2000) found evidence of the positive effect of IT capital and labor on outcome measures among hospitals. Reinartz et al. (2004) noted that implementing the CRM process (as customer relationship initiating and maintaining activities) has a positive effect on company's market share, sales growth and profitability.

3. People

Humans considered as a group or in indefinite numbers. The people constitute the internal social system of the organization. They consist of individuals and groups. Groups may be large or small, formal or informal, official or unofficial. They are dynamic. They form, change and disband. Human organization changes every day. Today, it is not the same as it was yesterday. It may change further in the coming days. People are living, thinking and feeling being who created the organization and try to achieve the objectives and goals. Thus, organizations exist to serve the people and customers and not the people exist to serve the organization. Organizations are the associations of individuals. Individuals differ in many respects and who come together to serve clients and customers. A Group consists of two or more people who interact with each other to achieve certain goals. A team consists of members who work intensely with each other to achieve a specific and common goal (Jones et al., 2006). Organisations use groups and teams as mechanisms to assist in increasing effectiveness and gaining competitive advantage.

4. Technology

Technology imparts the physical and economic conditions within which people work. With their bare hands people can do nothing so they are given assistance of buildings, machines, tools, processes and resources. The type of technology to implement depends very much on the type of the organization. Technology brings effectiveness and efficiency to work.

In the accounting industry, the big four accounting firms (Price water house coopers (PwC), Deloitte, Ernst & Young (EY) and KPMG) are by far the biggest in terms of revenue growth and financial performance in the accounting industry. In 2013 and 2014, the top firm was Deloitte. For fiscal year 2015, the biggest of the Big Four accounting was PwC, which reported revenues of US\$35.4 billion to Deloitte’s US\$35.2 billion. PwC performed wonderfully well and came on top from 2007-2105 in the revenue leagues six times. It was in 2010 that Deloitte became first by beating PwC by a very narrow margin of just US\$9 million. There was a difference of around US\$200 million between the two, roughly the same margin in 2015, when it was Deloitte that had the edge over PwC (Bacani, 2016).

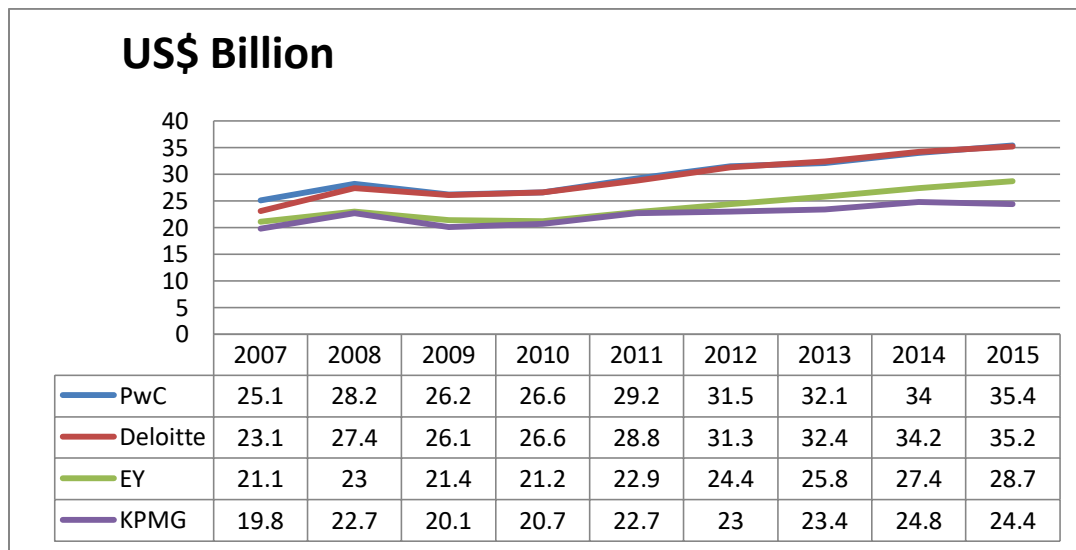


Figure 1: Global Revenue of the Big Four accounting firms (2007-2015)

PwC is the biggest firm on a globally in auditing industry. In 2015, PwC made \$15.2n from its audit business, compared to \$11.3bn at EY. PwC has traditionally been more reliant on its audit business than other firms although it tried to address this in 2014, when it acquired consulting firm Booz & Co to boost its consulting revenues. By all accounts, PwC is the best Big Four firm if a premium is put on prestige and generally impressing other people.

This paper focuses on organizational behaviour and financial performance of three of the top four accounting firms namely Price water house coopers (PwC), Deloitte, KPMG.

PwC was established in 1998 by a merger between Price Waterhouse and Coopers & Lybrand and is the largest professional services firm in the world and one of the Big Four auditors, along with Deloitte, Ernst & Young (EY) and KPMG. PwC is a network of firms in 157 countries, 756 locations, with more than 208,100 people. As of 2015, 22% of the workforce worked in Asia, 26% in North America and Caribbean and 32% in Western Europe. In November 2010, PwC acquired Diamond Management & Technology Consultants, adding 500 consultants to its North American network of more than 35,000 professionals. The company's global revenues were \$35.4 billion in 2015 financial year, of which \$15.2 billion was generated by its Assurance practice, \$8.9 billion by its Tax practice and \$11.3 billion by its Advisory practice (PwC Global Annual Review 2015).

Deloitte is an incorporated multinational UK professional services firm with operational headquarters in New York City in the United State. It was founded in 1845. It is the largest professional services network in the world by revenue and number of professionals and the largest professional services firm in the world (The Telegraph, 2017). Deloitte provides audit, tax, consulting, enterprise risk and financial advisory services with more than 244,400 professionals globally (Deloitte, 2016). In 2016 financial year, the company earned a record Thirty-Six Billion, Eight Hundred Million dollars (\$36.8 billion USD) in revenues (Forbes, 2016).

KPMG is a professional service company and one of the Big Four auditors, along with Deloitte, Ernst & Young (EY) and PricewaterhouseCoopers (PwC). It was established in 1987 and has three lines of services: financial audit, tax, and advisory. The name "KPMG" stands for "Klynveld Peat Marwick Goerdeler." It was chosen when KMG (Klynveld Main Goerdeler) merged with Peat Marwick. In 2009, KPMG in the UK was named the best big company to work for by The Times which was the fourth consecutive year that KPMG has made the top three (Griffiths, 2013).

In terms of technology, PwC acquired a leading European technology consulting business, Outbox Group, bolstering its ability to offer specialised cloud-based solutions and transformational services for clients across the UK and Europe.

In 2015, PwC had a 10% increase in overall revenues which amounted to Thirty-five billion, four hundred million dollars (US\$35.4bn) which comprises Fifteen billion, two million dollars (US\$15.2bn) in assurance, Eleven billion, two hundred million dollars (US\$11.2bn) in Advisory and Eight billion, Nine hundred million dollars (US\$8.9bn) in tax.

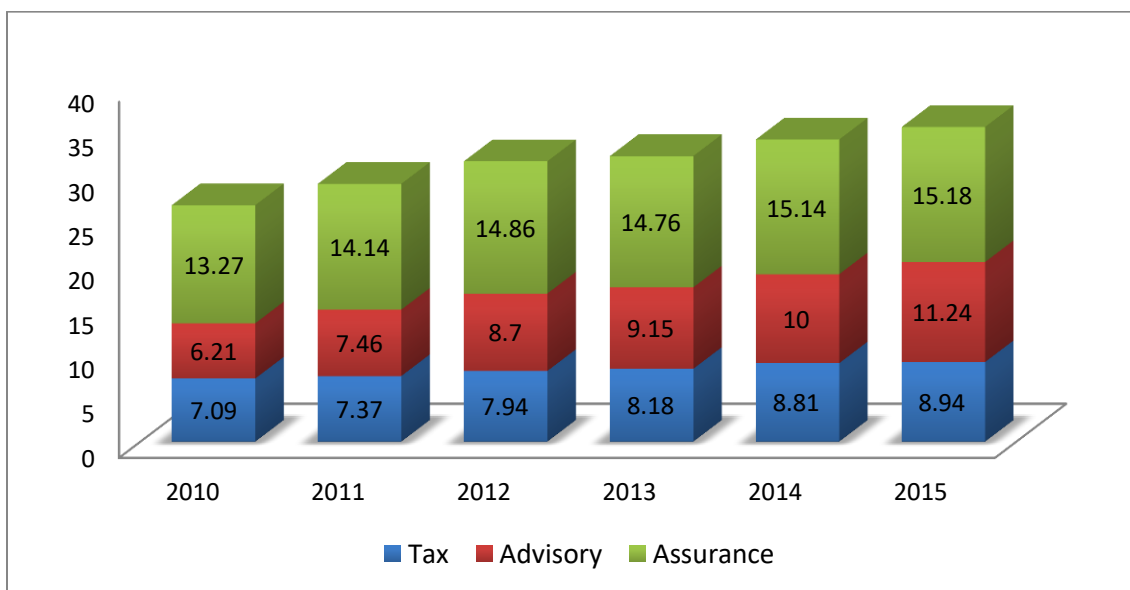


Figure 2: PwC revenue across service lines in US\$ (billions) from (2010-2015)

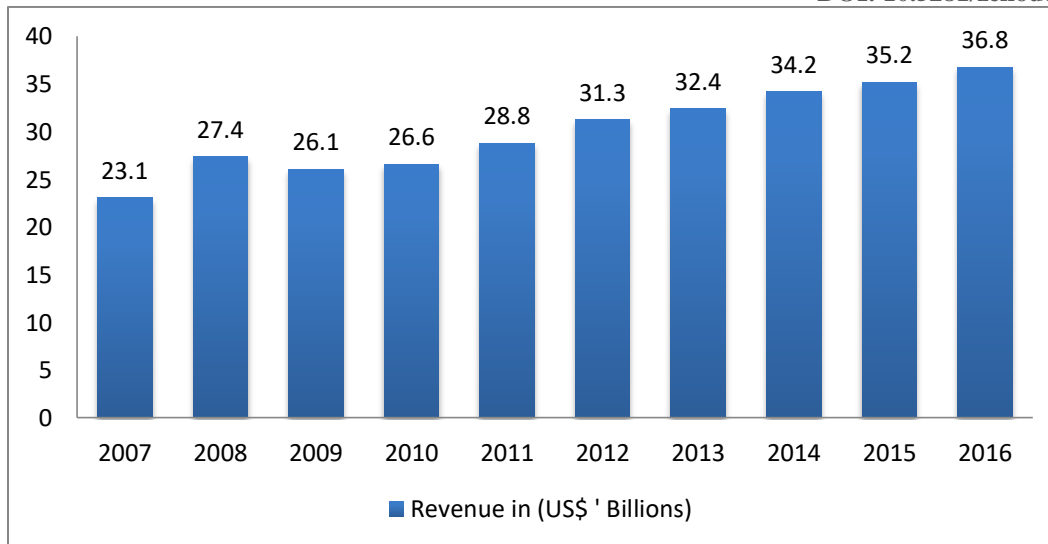


Figure 3: Deloitte global revenue in US\$ (billions) from (2007-2016)

5. Objectives of the Study

The objectives of this study are:

- To examine the influence of Computer Software Technology on financial performance of PwC, Deloitte and KPMG.
- To examine the influence of cost on customer relationship management on financial performance of PwC, Deloitte and KPMG.
- To examine the influence of Computer Software Technology and cost on customer relationship management on financial performance of PwC, Deloitte and KPMG.

6. Hypotheses of the Study

- H₀1: Computer Software Technology and Cost on customer relationship does not have significant influence on financial performance of PwC.
- H₀2: Computer Software Technology and Cost on customer relationship does not have significant influence on financial performance of Deloitte.
- H₀3: Computer Software Technology and Cost on customer relationship does not have significant influence on financial performance of KPMG.
- H₀4: Computer Software Technology and Cost on customer relationship does not have significant influence on financial performance of PwC and Deloitte.

7. Research Methodology

The data for this study was gotten from secondary sources of financial reports and statements of PwC, Deloitte and KGPM from 2011 to 2016 and statistica.com. For the analysis, data from 2013 to 2016 were used to analyze relationship between CRM, Technology and Performance in PWC, Deloitte and KPMG. Multiple regression analysis and Pearson correlation were used to test the four hypotheses and SPSS version 17 was used to perform the multiple regression test Smart PLS version 3.2.6 was used to carry out Structural Equation Model.

In this study, organizational behaviour will be measured by cost of customer relationship management and Technology (Computer software Technology) while financial performance will be measured by profits of the organizations.

Fornel and Larker (1981) criteria for more convergent validity of the mean-variance of output (AVE) is to be more than 5.0. Discriminate validity measured by the comparison of square root of AVE with the correlation between latent variables.

8. Data Analysis and Results

The first hypothesis examines the influence of Computer Software Technology and Cost on customer relationship does not have significant influence on financial performance of PwC. This hypothesis was performed using multiple regression analysis.

Table 1: Summary of Multiple Regression Analysis showing the influence of cost on customer relationship and computer software technology on financial performance of PwC

Predictors	B	t	P	R	R ²	F	P
Customer relationship	-2.560	-3.574	<.05				
Computer software	2.247	3.126	<.05	.902	.814	6.580	>.05

The result revealed that cost on customer relationship and computer software technology did not jointly predicted financial performance of PwC ($R^2 = 0.814$ $F(2,5) = 6.580$, $p > .05$). When combined cost on customer relationship and computer software technology accounted for 81.4% of the change observed in financial performance. Also result revealed that cost on customer relationship ($\beta = -2.560$, $t = -3.574$; $p < .05$) negatively predicted financial performance of PwC while cost on computer software technology ($\beta = 2.247$, $t = 3.126$; $p < .05$) positively predicted the financial performance of PwC.

The second hypothesis tests the significant influence of Computer Software Technology and Cost on customer relationship on financial performance of Deloitte. This hypothesis was tested using multiple regression analysis.

Table 2: Summary of Multiple Regression Analysis showing the influence of cost on customer relationship and computer software technology on financial performance of Deloitte

Predictors	B	t	P	R	R ²	F	P
Customer relationship	.501	1.995	>.05				
Computer software	.667	2.656	>.05	.973	.946	8.728	>.05

The result revealed that cost on customer relationship and computer software technology did not jointly predicted financial performance of Deloitte ($R^2 = 0.946$ $F(2, 3) = 8.728$, $p > .05$).

The third hypothesis tested the significant influence of Computer Software Technology and Cost on customer relationship on financial performance of KPMG. This hypothesis was tested using multiple regression analysis.

Table 3: Summary of Multiple Regression Analysis showing the influence of cost on customer relationship and computer software technology on financial performance of KPMG

Predictors	B	t	P	R	R ²	F	P
Customer relationship	-.829	-1.505	>.05				
Computer software	1.642	2.982	>.05	.948	.899	8.864	>.05

The result revealed that cost on customer relationship and computer software technology did not jointly predicted financial performance of KPMG ($R^2 = 0.899$, $F(2, 4) = 8.864$, $p > .05$).

Hypothesis four was carried out to test the significant influence of Computer Software Technology and Cost on customer relationship on financial performance of PwC and Deloitte. The test was performed using Structural Equation Model (SEM). The pattern-finding algorithms structural equation analysis was used to test the hypothesis.

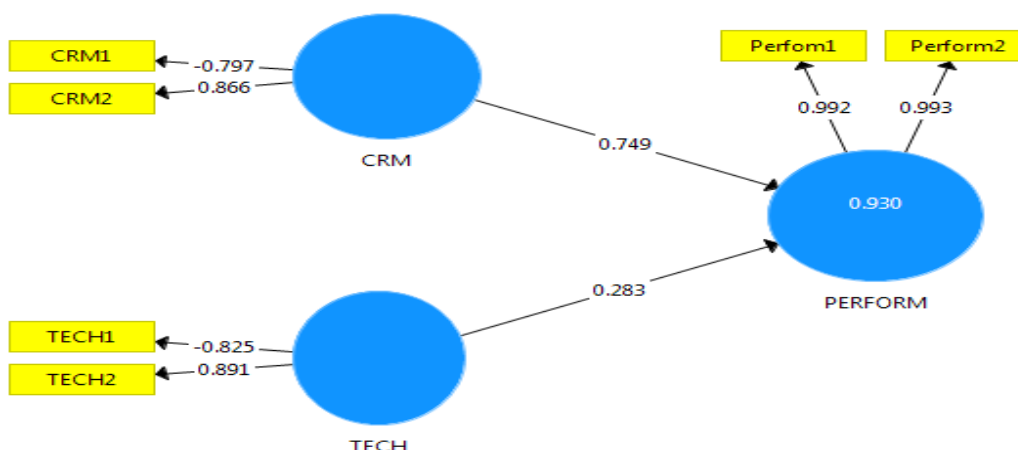


Figure 4: Structural Equation Model of Computer Software Technology and Cost on customer relationship on financial performance of PwC and Deloitte

Table 4: Correlation coefficient between the variables

R ²	AVE	Performance	CRM	Technology	Variables
0.930	0.985	-			Performance
	0.693	0.749			CRM
	0.737	0.283			Technology

The coefficients for all variables are summarized in the table above. The indicator variable for Performance, cost on customer service relationship management and computer software technology are 0.96, 0.69 and 0.74 respectively and shows Cronbach's alpha and reliability coefficient. These variables measure external validity of measurement tools. All these values are higher than 5.0 shows that which means the factors explain at least half the variance of their respective indicators.

The path from cost on customer relationship management to Performance has a coefficient of positive .749 while the path from Computer software technology to Performance has a

coefficient of positive .283. This implies that cost on customer relationship management and computer software technology positively jointly influenced financial performance of both PwC and Deloitte. The R-square value is 0.930, meaning that about 93.0% of the variance in Performance is explained by the model (that is, jointly by CRM and Technology)

9. Conclusion

This paper examines the Influence of Organizational behaviour of PwC, Deloitte and KPMG on their financial performance. It investigated the cost of customer relationship management and computer software technology on the financial performance of the four firms. The result of the first hypothesis revealed that cost on customer relationship and computer software technology did not jointly predicted financial performance of PwC but relatively cost on customer relationship negatively predicted financial performance of PwC while cost on computer software technology positively predicted the financial performance of PwC. The second hypothesis shows that cost on customer relationship and computer software technology did not jointly and relatively predicted financial performance of Deloitte. The third hypothesis shows that cost on customer relationship and computer software technology did not jointly and relatively predicted financial performance of KPMG while the fourth hypothesis shows that cost on customer relationship management and computer software technology positively jointly influenced financial performance of both PwC and Deloitte together.

The finding of this paper is in line with the findings of (Linderin, 2004; Sin et al.,2005) who reported that technology has powerful role in the establishment of CRM and let companies to more customize and provide more service with less cost and high profit for companies. Also, Reinartz et al. (2004) noted that implementing the CRM process (as customer relationship initiating and maintaining activities) has a positive effect on company's market share, sales growth and profitability.

This study therefore concludes that customer relationship management and computer technology are vital tools for business growth and development in the present age, therefore companies and organizations should endeavour to deploy quality customer relationship management and efficient computer technology to their business for effective growth.

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