

MANAGEMENT SUPPORT AND ITS IMPACT ON PERFORMANCE OF INTERNAL AUDITORS AT JORDANIAN PUBLIC INDUSTRIAL SHAREHOLDING COMPANIES

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ABSTRACT

This study seeks to identify the impact of support provided by Management on performance improvement of internal auditors at Shareholding companies in Jordan, The randomly selected sample (N=142) consisted of internal auditors at shareholding companies. The descriptive analytical methods including theoretical and empirical approaches were followed. Results demonstrate a positive statistical association between composite dimensions of management support and performance improvement of internal auditors at Jordanian shareholding companies. Specifically, the study supports a steady association between management support (material and immaterial incentives, and Professional development as dimensions of the variable) and internal auditor's performance level improvement. However, no statistical significant association was found between modern technology offered by the corporate and internal auditor's performance level improvement. The study concludes with a number of recommendations, most importantly, managers at industrial shareholding should pay greater attention to employees at internal auditing departments since

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internal audit is an essential function in such companies and a major internal control mechanism.

Keywords: Management Support, Performance, Internal Auditor, Jordanian Public Industrial Shareholding Companies.

JEL codes: M4 M 42

I. INTRODUCTION

Internal auditing is viewed as an essential internal control mechanism at institutions in general, and shareholding companies, in particular (Zabania, 2009). Recently, greater attention was given to internal auditing as an effective device helpful for an enterprise in self-development process that by evaluation, analysis, error detection, and correction. Furthermore, as a function, internal auditing following recent definitions, has been practiced at different organizational levels of an enterprise, with review of various management, financial and operating processes. Therefore, one can argue that the scope of internal audit not only involves checking and evaluating internal control system, but also expanded to produce indications as to extent to which organization have been able to accomplish its goals or not, which will assist top management take corrective actions and reconsider its policies, plans and decision-making process (Dwaik, 1993). In addition, internal auditing can serve as an effective control device for management on different activities and processes and to verify compliance degree with policies and procedures (Gleim, 1992). At this point, internal auditing has become an indispensable control mechanism at both public and private institutions, and an essential internal control device different corporation, and particularly for shareholding companies as the financial position of such corporations affects wide population of stakeholders including current and prospective investors, and other related stakeholders. On another level, internal auditing influences state finance since the public institutions gear up the development process by serving as a major income-generating resource in form of periodical taxes feed into the state budget (Khraisat, 1993).

In response to rapid developments in business environment, many business organizations have become faced with serious challenges, particularly with the recent financial crises and collapse of many giant companies due to ineffective internal control systems. Many studies (Al-Nsour, 2009; Zabania, 2008; Bakri, 2005 and US Institute for Internal Auditors, 2004) attributed weakness in the internal control systems to insufficient awareness and support by top management to the function of internal auditing, although the function of internal auditing is viewed as very critical aspect of organization that need careful consideration by managers because of its role in management practices improvement, as success or failure of the internal auditing in achieving objectives depend on the support given by management. In order to secure effectiveness of the internal audit process, Board of

Directors has to make available sufficient and appropriate support to internal audit departments that reflect corporate effectiveness and ability to accomplish intended targets. On this ground, the present study seeks to identify effect of top management support on the improved performance of internal auditors working at public shareholding companies in Jordan.

II. THEORETICAL FRAMEWORK AND PRIOR STUDIES

Internal auditing is attracting much of the interest currently and has become an evaluative activity of almost all activities and process in organization aiming at upgrading and increasing productivity efficiency of activities. For today's companies, internal audit is viewed as paramount function considering the vast expansion of businesses, and great development taking place in financial and management fields, in addition to intensive competition among companies which allowed companies lesser time to perform their control and auditing functions properly (Abdallah, 2005). At industrial companies, the internal auditing functions typically assigned to a specialized department separated from those functions under audit, the purpose of which is to check and evaluate different financial and management processes to make sure compliance with set plans and policies. So, the different recommendations suggested by the internal auditors intend to increase effectiveness in the public shareholding industrial companies in Jordan.

Albeit many studies have investigated the importance of internal auditing functions and factors influencing its effectiveness, the more significant issue that attracted little attention from researcher is management support, what forms it takes, and impact on increase and improvement of internal auditor's performance and efficacy at public shareholding industrial companies, which, in turn, will enhance internal auditing in industrial companies in general. Some of the studies that have to do with the present studies will follow. In a study aimed at identifying essential components of internal audit, in general, and government internal audit, in particular, at Sultanate of Oman, Alrawahi (2006) concluded that top managers at Ministry of Civil Service realize the importance of availability of essential components of internal auditing. However, incentives as essential components are poorly available. The study conducted by the Institute of Internal Auditors (IIA's) Research Foundation (2004) sought assess challenges facing auditors in the government sector in North America. Internal auditors were sent (4100) questionnaires via the World Wide Web (WWW) at the IIA's website. Results showed that government auditors encounter substantially significant challenges, most importantly lack of incentives rewarding auditors. Studies indicate that incentives can be an effective tool to overcome many maintained by organization in different fields, and can also be viewed as a vehicle for development and bringing about change (Abdelwahab, 2002).

Generally, studies stress on incentives as a form of support provided by management to improve and enhance performance of employees in the organizations. For instance, (Horne & Suzi, 2004) sought to identify the role of incentives in employee performance improvement, and to identify what reasons might increase employee motivation and improve performance, The study also

aimed at identifying the importance of existing facilitations and incentives in work environment, and casting light on incentives a factor motivate well-trained professional employees stay in work, The researchers found a significant effect of incentives on job improvement. However, there was a strong positive association between incentives and improved performance of employees by motivating them work hard at maximum level so that to produce best outcomes.

Similarly, Harold et al. (2004) involved a sample of (400) organizations in the United States aiming at studying the contribution degree of incentives in job performance improvement, and to identify which is most effective among incentive programs, The study found that incentive systems greatly improved performance. Further, material incentives improved performance by (22%) compared with immaterial incentives (44%). In the same line, Zigon (1994) conducted a study sought to identify significance of rewards and incentives on the increased productivity efficiency of employees, Results showed that job perceivably improves so long as management provided incentives, and the material and immaterial incentives are among most essential managerial activities aiming at raising the productivity efficiency and improving work methods.

On the other hand, as to professional development of employees, Hepworth & Noel (2002) argued that staffing professional employees increases effectiveness of internal auditing, and that an internal auditor should pursue continual professional development by seeking membership at professional auditor and accountant associations both nationally and internationally and obtain world-class accreditation, All in all, this will help improving effectiveness of the internal auditing process. On the other hand, Shahreri (1999) advised recruiting competent and well-qualified staff to support internal auditing activities and departments.

As for the technological and information aspects as an essential enabler to which corporations should pay greater attention by directing greater investments to that field due to its perceived influence on the performance of both organization and its employees, Many studies (Nygaard and Bjorn, 199; Wenger, 2000; Ripoll and Aparisi, 1999) emphasized that using modern information technology has become very vital in the today's business world due to its essential role as a major supporting component.

In a study conducted by Dahmash & Abu Zer (2009) entitled "Knowledge Management between Information Technology and Accounting Rehabilitation", The most significant result was that when companies make available technological capabilities and requirements, a far-reaching change would take place in the part taken by accountants and auditors so that they will become more effective transiting from their more traditional role to one in which they will be more familiarized with using computer skills, and employing technology capabilities more proficiently. In turn, that will have reflections on the organization success as a whole.

A more related study to this one conducted on Jordanian shareholding companies to identify effect of employing information technology on the organizational innovation, Admour (2003) found no positive relationship between using information technology and work environment as such companies.

A similar study (Al-Qudah, 2007) conducted with a sample recruited from the University of Jordan found a positive, but weak, association which was accounted for by the researcher by low awareness regarding significant use of Information Technology (IT) in carrying out jobs within shorter time at those universities.

Based on the earlier discussion and results from prior studies, hypotheses in the present can be formulated as below:

H0: There is no statistical significant effect of management support on performance level improvement of internal auditors at public shareholding companies in Jordan.

H01: There is no statistical significant effect of material incentives on performance level improvement of internal auditors.

H02: There is no statistical significant effect of immaterial incentives on performance level improvement of internal auditors.

H03: There is no statistical significant effect of Professional development on performance level improvement of internal auditors

H04: There is no statistical significant effect of modern technology on performance level improvement of internal auditors

III. METHOD

A. Population & Sample

Population consisted of the whole body of internal auditors (N=442) from (92) public shareholding companies in Jordan (Amman Bourse, 2009). Participants (N=156) were selected with simple randomized method representing (35%) of population. The questionnaires were handed in personally. Out of 156 questionnaires administered, (145) usable questionnaires were taken back and three were excluded because did not match analysis criteria. Questionnaires used for analysis totaled (142) representing (32%) of all questionnaires administered which is acceptable for statistical analysis purposes.

B. Participant Characteristics

Table (1) shows that the sample was dominated by males (85%) compared with females (15%). This result can be accounted for by industrial companies in Jordan recruit male auditors more than females; given that internal auditing practices and activities require fieldwork, working for longer hours. As for age, participants were mostly less than 30 of age representing 40 per cent of the sample; meaning that industrial companies in Jordan tend to recruit younger auditors who are able to perform job duties more proficiently and faster. Participants within age group (51 yrs or more) were only 15 per cent which is very low, since employees at this age are encouraged to retire. However, the participants were mostly holders of the

bachelor's degree (78%) and the least percentage was for graduate degree holders (8%). This result can be explained by the nature of internal auditing in such companies can be sufficiently performed by bachelor's holders who are more competent with such work and more knowledgeable considering their academic background in internal auditing they received at college. The longest tenure spent by an internal auditor in the sampled companies greatly concentrated within (6-10 yrs) representing 33 per cent. This result indicates job satisfaction, stability of employees and support from managers.

Table 1
Distribution of Participants by gender, age, education, and tenure

Demographic Variable	Frequency	Percentage %
Gender		
Male	121	85%
Female	21	15%
Age		
30 or below	56	40%
31-40	34	24%
41-50	30	21%
51 or more	22	15%
Education		
Diploma	20	14%
Bachelor's	111	78%
Graduate Studies	11	8%
Tenure		
5 yrs or less	32	23%
6-10 yrs	45	32%
11-15 yrs	22	15%
16-20 yrs	13	9%
21 yrs or more	30	21%

C. Instrumentation

The questionnaire was the instrument by which data were collected and specifically designed for this study intending to measure impact of management support on internal auditor's performance level improvement at public shareholding companies in Jordan. Depending on the literature reviewed, the questionnaire developed consisted of three subscales. Part one, elicited demographic data describing participants' characteristics. Part two included 23-items measuring management support (independent variable) and its dimensions (material incentives, immaterial incentives, qualified personnel, and modern technology). The following is an outline in brief:

Material Incentives: measured by questions (1-7). This subscale was developed depending on Al-Nsour (2009). Items stated: management provides financial rewards for internal auditors to improve work motivation; incentives provided to internal auditors encourage their creativity and innovation; the firm where I work provides clear rewarding system targeting increased job effectiveness; internal auditors are rewarded materially for their distinctive performance; the payment I regularly receive covers the livelihood requirements; the annual raise I would receive commensurate with tasks I perform; the salary I receive is comparably better than that received by internal auditors working in the same field at other firms.

Immaterial incentives: Questions (8-13) designed by the researcher to measure immaterial incentives dimension relying on the scale developed in Al-Nsour (2009) and Al-Maani & Akho Ershaideh ((2009). Items included: my position allows for continuous job advancement; internal auditor performance evaluation is conducted on objective bases away from favoritism; my performance as internal auditor associates with how much I would be materially rewarded; managers take suggestions recommended by internal auditors into account; availability of technological facilities at the workplace helps me performing job tasks easier; I feel with self-esteem and being appreciated by Directors of the Company.

Professional development: Questions (14-17) measured professional development of employees. This subscale was developed based on scale developed in Hepworth (2002). Items stated: the company recruits best qualified auditors; newly recruited auditors receive training on continuous basis; the firm sends auditors abroad for acquiring most up-to-date knowledge in their field; staffing process is partial and free from favoritism.

Modern Technology: Questions (18-23) measure availability of modern technology facilities. Items stressed on: the firm provides modern technologies needed for an internal auditor; the firm provides for fast and modern computer sets for internal auditors; the firm's internal auditing is entirely automated; the firm makes available the different software and other requirements for auditing timely; the firm where I work makes invests good moneys in keeping along with most up-to-date technologies related to my job as internal auditor; availability of modern technologies help perform internal auditing job tasks more easily.

Part three of the questionnaire included nine items measuring internal auditor's level (dependent variable). This scale was developed depending on Al-Zghailat (2003) and Barham (2006). Items stated: I practice my internal auditing functions at higher accuracy; I have the knowledge needed to perform my internal auditing duties; I achieve work timely; I review all processes and programs to ensure they were carried out as planned; I check out accuracy of assets preservation procedures and availability; I keep complying with work hours; I have the capability to learn about auditing skills; I am able to tolerate work pressure; I cooperate with workmates with teamwork spirit.

Responses were estimated on 5-point Likert scale of Strongly Agree (=1), Agree (=2), Neutral (=3), Disagree (=4) and Strongly Disagree (=5).

D. Validity

Table 2
Reliability coefficient Chronbach Alpha of dependent and independent variables

variables	Items	Chronbach Alpha
material incentives	7	%87
moral (Immaterial) incentives	6	%90
Professional development	4	%77
Modern Technology	6	%87
Performance of internal auditors	9	%91

For validation, the questionnaire was sent to a number of expert academics specialized in accounting to elicit their views regarding consistency of item wording and how appropriate to the area to which they were assigned. The final version of the questionnaire responded to changes, and modifications as suggested. Reliability of the scale was measured using Cronbach alpha coefficient, as shown by table (2), and ranged between 77-91% which is higher than the statistically acceptable value, indicating that the scale's reliability is more than statistically acceptable.

E. Statistical Treatment

For statistical treatment of data that were collected in light of study objectives and variables measured, the following statistical methods were employed:

- Frequencies and percentages to describe participant characteristics.
- Means and standard deviations to identify degree to which respondents were responsive to instrument items.
- Cronbach alpha coefficient for internal consistency to test for instrument reliability.
- Multiple regression to test for study hypotheses.

IV. RESULTS AND DISCUSSION

A. Variables

Table (3) shows that dimensions of Management Support were not widely disparate, where the material incentives was placed top (M=3.66), compared with Modern Technology that was placed down (M=3.11). Compared with the hypothesized mean (M=3), the overall Management Support mean was higher; whereas the mean score of Performance of internal auditors (dependent variable) reached (M=3.29).

Table 3

Means and Standard Deviations of Study Variables

Variable	Mean	SD
material incentives	3.66	.65
moral (Immaterial) incentives	3.25	.77
Professional development	3.55	.62
Modern Technology	3.11	.73
Performance of internal auditors	3.29	.75

B. Testing Hypotheses and Discussion of Results

To test for study hypotheses, results from the multiple regression analysis were as shown by table (4).

Table 4
Multiple regression analysis to find out whether there is effect of Management Support on Performance of Internal Auditors

Independent Variables	Model Variable Statistics				Model Statistics			
	β	Beta	T	Sig.	R	R²	F	Sig.
material incentives	.379	.379	3.732	.000	.436	.192	126.40	0.000
moral (Immaterial) incentives	.374	.374	4.792	.000				
Professional development	.210	.210	2.274	.025				
Modern Technology	-.141	-.141	-1.407	.162				

Results demonstrate that correlation coefficient (R) between dimensions of the variable "management support" as a composite was (0.436) and the limiting factor (R²) was at (0.192), implying that almost 0.192 of improvement in performance level of internal auditors is accounted for by changes in dimensions of management support as a composite. This result is further confirmed F-value of (126.40) at significance level ($\alpha=.05$). This result indicates a statistically significant association between dimension of management support (material incentives, immaterial

incentives, qualified personnel (Professional development) and modern technology) as a composite and improved performance level of internal auditors. The main hypothesis in this study is, therefore, acceptable.

As for the sub-hypotheses, table above shows a relationship between material incentives provided by the company's management and the improved performance level of internal auditors at public shareholding industrial companies in Jordan. Influence coefficient Beta was at (.324) with statistical T-value being at (3.732) at statistical level ($\alpha=0.00$) which is below significance level ($\alpha=.05$). So, one can safely argue that the material incentives as provided by management to its internal auditors surely have an effective role in the improved performance level of internal auditors at public shareholding industrial companies in Jordan. The first sub-hypothesis "There is a statistical significant effect of material incentives on performance level improvement of internal auditors at public shareholding industrial companies in Jordan" is acceptable. This result is consistent with findings concluded by Alnsour (2009), Almaani & Akho Ersheideh (2009) and AL Zgheilal (2003) that material incentives as provided typically by companies had a significant effect on improvement and enhancement of performance level of employees at such companies.

Pertaining to the second sub-hypothesis, there is a statistical significant effect of immaterial incentives on performance level improvement of internal auditors at public shareholding industrial companies in Jordan. Results supported a statistically significant association at significance level ($\alpha=0.00$) which is below the adopted significance level of ($\alpha=0.05$), Beta coefficient of influence (0.382) was significant with T-value being (4.792). This implies a steady association i.e. more the internal auditors exposed to immaterial incentives by managers, the more improved their performance level will be and their morale will be better, and higher productivity, and greater job satisfaction. This result receives support from various studies conducted in business, management and accounting fields, for example Alzgheilal (2003) Robert & Torello (2003) that stressed on the importance of incentives provided by companies to their employees.

Results from the current study supported the third sub-hypothesis "There is a statistical significant effect of qualified staff on performance level improvement of internal auditors at public shareholding industrial companies in Jordan". Results confirmed a statistically significant association at significance level ($\alpha=0.025$) which is below the adapted significance level ($\alpha=0.05$). Beta coefficient of influence was at (0.202), and statistical T-value was at (2.274). Statistical results confirmed a statistical significant association between staffing qualified personnel and improvement of performance level of internal auditors. So, this sub-hypothesis was rejected. This result can be accounted for by the observation that the more qualified internal auditors staffed, with strong experience record, and based on objective bases, while providing them with the training they need and being abreast with developments in their field, the higher their performance level will be, will positive reflection on the company as a whole. This result is consistent with Akho Ershiedeh & Almaani (2009), Hepworth (2002) and Shahrوري (1999).

The fourth sub-hypothesis "There is a statistical significant effect of modern technology on performance level improvement of internal auditors at public shareholding industrial companies in Jordan"; results showed the opposite with the statistical significant level being at ($\alpha=0.162$) which is higher than the adopted significant alpha of ($\alpha=0.05$). The Beta coefficient of influence was at (0.114) and statistical T-value was at (-1.407). This result indicates that there is no statistically significant association between modern technology and the improved performance level of internal auditors in companies. This result can be explained by the observation that internal auditors at these companies are change resistant, and every time the company would introduce or otherwise invest in modern technologies to upgrade processes at the internal auditing departments, such attempt would be faced with resistance by internal auditors who are more familiarized with the traditional methods of work, and practice auditing manually, so if technology introduced by their companies, and internal auditing were upgraded to be more automated and computer-based, they fear to lose their jobs or be replaced with more qualified internal auditors who can deal with technological systems of auditing. This result was inconsistent with that concluded by Dahmash & Abo Zer (2009).

C. Recommendations and further studies

Based on earlier results it is advisable that shareholding firms need to pay greater attention to employees at internal audit departments, because internal auditing is an essential function and a major of internal control components at the shareholding industrial corporations. Conducting further empirical studies intending to measure effect of modern technology as one of management support dimensions to improve performance of internal auditors in differing sectors such as banking, insurance, etc in order to identify compliance degree with results from the present study; and also to investigate variables other than emphasized in this study pertaining the concept of management and impact on the improved performance of internal auditors.

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