Impact of Knowledge Sharing Behavior on Perceived Performance of Big 4 and Non Big 4 Audit Firms in Pakistan

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Abstract

The aim of this study is to find the impact of knowledge sharing behaviors (KSB) on perceived performance of Big 4 audit firms in Pakistan and comparing it with impact of KSB on the perceived performance of non big 4 audit firms in Pakistan. Cross sectional survey method was used to collect data from audit personnel of the big 4 audit firms and "A category" ranked accountancy firms in Pakistan through purposive sampling. 207 valid responses were analyzed through SPSS using multiple regression and PROCESS macro (Hayes, 2013) for the Big 4 analyses while 172 valid responses were analyzed for the non Big 4 audit firms using the same approach of SPSS using multiple regression as mentioned above . The results revealed KSB and its three dimensions i.e. organizational communication, personal communication and communities of practice were significantly related to perceived organizational performance while the facet of written communication was found to have no direct relationship in big 4. Compared to this, the analyses of non Big 4 showed that personal communication and communities of practice were significantly related to perceived organizational performance while organizational communication and written communication were found to have no direct relationship.

Keywords: *Audit firms; Knowledge sharing behavior; Perceived performance*

1. Introduction

The concept of knowledge-based organizations has emphasized the importance of intellectual resources as a key to sustainable competitive advantage [1], thus making knowledge a primary organizational asset [2]. The organizations with effective management of knowledge resources are found to have multitude of benefits i.e. reduction in operational costs, innovation, improved consumer service and an ultimate efficient corporate performance [3]. Dynamic business environment, globalization, and cutthroat competition in present era, has made knowledge as a key source of performance enhancement [4]. Knowledge

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management includes creation, sharing, utilization and implementation of organizational information in effective manner [5]. In present knowledge based economy, although all elements of knowledge management contribute towards organizational performance [3], yet knowledge sharing has specifically become an important predictor of performance enhancement [6]. Knowledge sharing brings together the full range of employees' skills, knowledge, and experience that ultimately increases the firms' ability to solve problems, avoid repeated mistakes and spread the adoption of best practices [7]. Yin [8] indicated that knowledge can be shared via written communication, personal interaction, organizational communication and communities of practice. Knowledge sharing is a prime precursor of effective and timely knowledge deployment [9]. Even though organizations possess great amount of information they cannot translate it into improved practices and performance unless there are effective knowledge sharing mechanisms [10]. Given these facts, many large global corporations(e.g. Dow Chemical, Hewlett-Packard, Shell, Xerox) have launched formal initiatives to promote knowledge sharing amongst employees [11].

Knowledge sharing carries great importance in professional service sector [12]. Auditing firms are among such service sectors where the skills and knowledge of auditors are prime elements in satisfactory service delivery [13]. Due to the increased work requirements on the part of the audit firms internationally as well as in Pakistan [14], it has become imperative for them to enhance their performance to meet their own increased costs and performance standards. This is mainly due to the fact that businesses were unable to meet the requirements of the Codes and the audit firms' personnel had to work longer hours to correct the problems they were facing from the clients. One solution is that the audit firms can appoint more experienced auditors to perform efficiently but due to this action cost will also increase. Outsourcing is another option of cost reduction. But audit is very sensitive work and there can be issues of secrecy. Auditing firms can achieve higher performance by use of knowledge sharing, where senior auditors can impart knowledge among the juniors. In this way, audit cost can be managed and performance can be enhanced. In the scenario of auditing firms knowledge sharing is based on the belief that bringing together the full range of employees' skills, knowledge, and experience can increase the performance with which firms can solve problems, avoid repeating mistakes and spread the adoption of best practices. Knowledge sharing among employees can improve the integrity of audit process and help in formulating the most appropriate audit opinion. This leads towards increase organizational performance in audit firms [15].

Audit firms of Pakistan are facing increasing demand for organizational performance. Knowledge sharing behavior in audit engagements may help them respond to this challenge, and this study seeks to advance the understanding of such sharing. Despite the importance of knowledge sharing in improving audit firm's performance only handful research is carried out in western context [15]. In contrast to the use of consolidated knowledge sharing construct we also include its four dimensions i.e. written communication, organizational communication, personal interaction and communities of practice as suggested by [8]. We aim to extend this idea in developing eastern nation of Pakistan where the cultural norms may differently impact the association. Previous research studies have mostly investigated the knowledge sharing and individual performance relationship and failed to incorporate the impact of cultural factors [10]. This study will not only

contribute theoretically but it will also assist audit personal and policy makers to make effective knowledge sharing strategies and implementation them to enhance performance.

"To enhance the performance of auditing firm even after new regulations, increased costs, and with existing employees, the probe can determine how knowledge sharing enhances the perceived performance of auditing firms of Pakistan and analyses the role of different dimensions of knowledge sharing on perceived performance of auditing firms."

1. To find out the impact of knowledge sharing behaviour on perceived performance of auditing firms in Pakistan.
2. To find the impact of different dimensions of knowledge sharing on perceived performance in auditing firms of Pakistan.

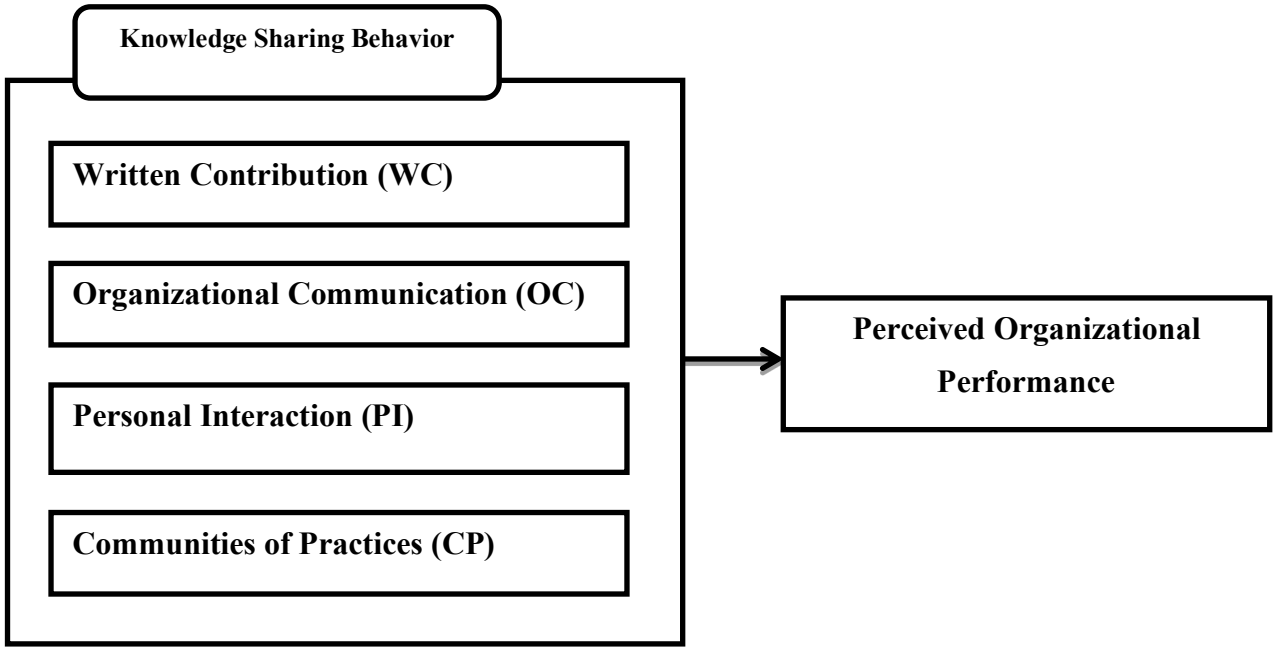

Figure 1. Research Model

2. Methodology

This is a quantitative and explanatory inquiry in which data is collected at single point of time. Sampling frame consisted of audit personnel ranging from staff associates to partners of the Big 4 and non Big 4 audit and accountancy firms which are also 'Category A' audit firms as per State Bank of Pakistan list for Annexure-A to BPRD Circular Letter No. 3 January 13, 2015 (SBP's PANEL OF AUDITORS UNDER SECTION 35(1) OF B.C.O. 1962). Purposive sampling method was employed to select auditors from Big four audit firms (Price water house Coopers A.F Ferguson &Co., KPMG Taseer Hadi and Co, Ernst & Young Ford Rhodes Sidat Hyder, Deloitte Touche Tohmatsu M. Yousaf Adil Saleem &Co.) of Pakistan because they comprise 60% of the audit assignments all over Pakistan [16], as well as non Big 4 audit firms. The participants were audit personnel ranging from staff associates to partners of Big 4 and non Big 4 firms in Pakistan. It is similar to the previous studies conducted in audit firms [17].

Cronbach's Alpha of each scale was measured to establish the reliability and the results shown in Table 1. This showed the Cronbach's alpha for organizational performance to be 0.912, KSB to be 0.957. Since the values of all variables were considerably greater than the generally acceptable level of 0.5, therefore these indicate that the scales are highly reliable [18].

Table 1. Cronbach's Alpha

	Cronbach's Alpha	N of Items
Performance	**.912**	**12**
Knowledge sharing behavior	**.957**	**28**

3. Direct Relationship

First hypothesis stated that knowledge sharing behavior has a significant impact on perceived organizational performance of auditing firms of Pakistan. In the case of Big 4 Audit firms, linear regression was employed to test H1 and our results supported that KSB have significant positive relationship with perceived organizational performance (β=0.476, t=10.29, p≤0.05). In the case of Non Big 4, the results were similar, supporting that KSB has significant positive relationship with perceived organizational performance (β=0.556, t=8.995, p≤0.05). In order to test H2, H3, H4, and H5, for Big 4 as well as Non Big 4, multiple regressions were run to find out the comparative impact of dimensions of KSB i.e. WC, OC, PI and CP on organizational performance. Multicollinearity was addressed by a statistical tool called Tolerance and VIF (*variance inflation factor)*. In this case there was no issue of multicollinearity (*VIF* = 1, *Tolerance* = 1) and Durbin Watson = 1.915 which indicated that there was no problem of autocorrelation. In case of the Big 4 Audit firms the results supported H3, H4 and H5, such that a significant positive relationship was found in OC and perceived performance (β=0.283, t=3.68, p≤0.005) and PI and perceived performance (β=0.306, t=3.861, p≤0.005); as well as CP and perceived performance (β=.088, t=2.075, p≤0.005). However for Non Big 4, it supported only H4 such that a significant positive relationship was found in PI and perceived performance (β=0.345, t=3.341, p≤0.005). So in case of Big 4 Audit firms it indicates that organizational communication, personal interaction and communities of practice increase organizational performance. But H2 was not supported, such that relationship in WC and perceived performance (β=0.047, t=0.75, p≥0.005) was not found to be insignificant. In the case of Non Big 4 Audit firms it indicates that only personal interaction increase organizational performance while H2, H3 and H5 were not supported in that written communication (β=0.131, t=1.424, p≥0.005), organizational communication (β=0.283, t=1.887, p≥0.005) and communities of practice (β=0.088, t= -0.876, p≥0.005). The results of regression analysis are summarized in Table 3.

Table 1 Regression Results

Model	**Unstandardized Coefficients**	**Standardized Coefficients**	**Sig.**

		B		Std. Error		Beta			
		Big 4	**Non Big 4**	**Big 4**	**Non Big 4**	**Big 4**	**Non Big 4**	**Big 4**	**Non Big 4**
	KSB	.476	**.556**	.046	**.062**	.548	**.742**	.000	**.000**
	WC	.047	**.131**	.047	**.092**	.075	**.158**	.317	**.160**
	OC	.283	**.187**	.077	**.099**	.352	**.303**	.000	**.064**
	PI	.306	**.345**	.079	**.103**	.383	**.508**	.000	**.001**
	CP	.088	**-.088**	.042	**.100**	.154	**-.135**	.039	**.384**

4. Discussion

The objective of this study was to identify and compare the impact of knowledge sharing on the perceived performance of audit firms in Pakistan classified into 2 categories, Big 4 and Non Big 4. This indicates that if knowledge sharing were to take place between different individuals of an organization, or between different work units or departments of the organization, this would and should improve the perceived performance of the concerned organization. This therefore formed the main hypothesis which was to be tested during the course of this research. As the development of this hypothesis continued, some of the components of knowledge sharing were identified i.e. written communication, personal interaction, organizational communication and communities of practice [8], which would help to better understand the relationship between knowledge sharing and perceived performance.

For the first set of hypotheses about direct relationship of KSB and its dimensions with organizational performance an overall support was received in case of Big 4 Audit firms. It was validated that KSB in auditing firms are responsible for improvement in perceived performance. Our findings confirm the extant literature that shows overall organizational performance is increased by the knowledge sharing behaviors. Further, the personal interaction, organizational communication and communities of practice were also linked to positive perceived performance. Such that, organizational communication is one of the method of information sharing through formal organizational channels [19]. Employees offer ideas, solutions, insights on working methods, learning from experiences and suggestions for improvement. Thus, they have improved working when role-related information and decision making is effective that contributes towards the effective performance [20]. Apart from the knowledge gained by formal meetings, personal interaction allows the employees to share those issues that cannot be discussed on formal platform [21]. Peers can exchange ideas and discuss the problems faced in work while conversing with each other. This not only allows the improvement of task performance and problem solving but also stirs the passion and excitement on specific knowledge area [22]. Communities of practice are yet another important way of knowledge sharing in professional communities. Such as auditors who require tacit knowledge and experience from

their colleagues in addition to the academic qualification specifically benefit from them. They are informal group of people who are from same profession and they share knowledge related to their profession. The sharing of tacit knowledge promotes learning, skill development, innovation and develops the competencies of professionals [23] that are a precursor of improved organizational performance [24].

But our findings didn't support the impact of written communication on performance. This is due to the fact that in comparison to the other knowledge sharing methods, written communication is used in audit settings comparatively in less frequency. Knowledge sharing practice can be considered as publication of scientific knowledge which has been codified and then added to the pool of existing body of knowledge. Mostly this kind of trend is used in academic settings [25].

However in the case of Non Big 4 Audit firms, the situation seems to be a bit different. Although an overall support was received in case of non Big 4 Audit firms. It was validated that KSB in auditing firms are responsible for improvement in perceived performance. But only personal interaction was linked to positive perceived performance. This indicates our findings didn't support the impact of written communication, organizational communication and communities of practice on performance

5. Conclusion and Implications

The present study proved that knowledge sharing significant predictors of perceived performance in Big 4 & non big 4 auditing firms in Pakistan. Three dimensions of KSB i.e. organizational communication, personal interaction and communities of practice were found to act as the source of improvement in perceived organizational performance yet written communication was found to have no significant relation with perceived organizational performance. The research has contributed to the knowledge management literature in several ways. First of all, it has shed light on the scantly researched construct of knowledge sharing in specific context of audit settings as only limited number of research studies are carried in this context [15]. The auditors should codify their prior experience and knowledge so that their peers can take advantage from them and carry out the audit performance in efficient manner. The auditors should enhance informal interaction to share the issues and suggest possible solutions. In addition they should share their new knowledge and experiences with peers so that overall audit assignments can be completed with full vigilance. Formal communication channels should promote the ideas sharing, solutions of complex auditing issues, insights on working methods for detecting frauds and errors, learning from experiences and suggestions for improvement in future audit assignments. In this way auditors can have improved working when role-related information and decision making is more knowledge and skill based that will contribute towards the effective performance.

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