

A Study of the Voluntary External Turnover of Internal Auditors

by

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Sponsored by:
The St. Louis Chapter of the Institute of Internal Auditors
Research Committee

March 2009

(A condensed version of a dissertation presented to Webster University by Labi Tiamiyu. This version is based on survey of members of St. Louis Chapter of IIA, using descriptive statistics.)

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ABSTRACT

A Study of Voluntary External Turnover of Internal Auditors

The purpose of this study is to determine which factors are relevant to the voluntary external turnover of internal auditors. The research uses knowledge from audit literature and voluntary employee turnover, to create a framework. This framework served as basis for hypotheses formulation, and field-testing. Prior research and existing literature indicates that job dissatisfaction, organizational commitment, and alternative job opportunities, are relevant to voluntary turnover of employees. Members of the Institute of Internal Auditors, Saint Louis Chapter were surveyed to determine the relevance of these factors to the voluntary external turnover of internal auditors in the last five years. The result suggested that the availability of alternative job opportunities is more significantly related to voluntary turnover of internal auditors than their job satisfaction, and that organizational commitment is not significantly relevant to voluntary turnover of internal auditors. This study could serve as a useful tool for management to promote the retention of internal auditors or to facilitate a functional turnover of internal auditors.

Chapter I

INTRODUCTION

Phenomenon of Interest

In response to some massive corporate accounting frauds uncovered in 2001 (such as Enron Corporation, MCI/WorldCom, and Tyco International), the U. S. Government enacted the Sarbanes Oxley Act of 2002 (SOX). The primary goals of SOX were to restore investors' confidence in the stock market and to deter company executives from defrauding the companies they are managing. However, SOX resulted in some auxiliary or unintended consequences.

One of the ancillary consequences of SOX is the increase in market demand for audit resources including internal and external auditors. This increase in demand resulted in difficulties for companies to retain internal auditors in the face of new opportunities, such as SOX compliance auditor, corporate risk manager, and SOX coordinator, available to the auditors due to SOX. Internal auditors enjoyed greater opportunities and increased salaries in the past decade due to economic prosperity; and regulatory pronouncements including the SOX. This created high demand for internal audit professionals (Harrington, 2008). According to Dave Walker, Chairman of the Audit Committee of the Board of Directors of two of NASDAQ companies, "For both internal and external auditors, Sarbanes-Oxley has meant, 'a raising of the bar.' Internal auditors now have a greater presence and have established an important role in companies where they previously existed. At companies where internal audit has not existed in the past, there's serious discussion about adding an internal audit function, if it hasn't been added already" (Protiviti Independent Risk Consulting, 2004a, p.5). Similarly, McDonald (2006) stated that, "Corporate governance reforms such as the U. S. Sarbanes-Oxley Act of 2002 and talent shortages in the audit profession have combined to push demand for internal auditors to unprecedented levels. Although this is a boon for auditors' career prospects, it has made it more difficult than ever for organizations to recruit and retain experienced practitioners" (p. 73). Therefore, the purpose of this research is to identify some of the reasons for the voluntary external turnover of internal auditors in recent times.

"Though varying in intensity with the ups and downs of economic cycles, voluntary turnover persists as an important concern for managers" (Holtom & Inderrieden, 2006, p. 435). The most important asset of organizations is human resources. Human capital is the primary determinant of productivity; therefore, voluntary turnover of employees reduces productivity (Dess & Shaw, 2001). When internal auditor turnover occurs it amounts to loss of critical knowledge about the company, especially, when the turnover is voluntary and external. Turnover can be voluntary as in the case when an employee resigns out of his own volition to pursue new opportunities with another company. On the other hand, involuntary turnover is due to an employer terminating an employee's employment. Voluntary turnover can be classified into two types, external and internal.

External voluntary turnover occurs when an employee resigns, out of his or her own volition, to work for another organization. However, internal voluntary turnover occurs when an employee leaves one department, out of his or her own volition, to work for another department within the same company. According to Stovel and Bontis (2002), employee turnover can also be classified in terms of *functional* and *dysfunctional*. Functional turnover occurs when good performers stay and bad performers leave, whereas dysfunctional turnover occurs when bad performers stay and good performers leave. The focus of this research is on external voluntary turnover. This is a phenomenon that business managers desperately seek to control to prevent dysfunctional turnover and ensure maximization of the return on human capital assets of the organization.

A Study of the Voluntary External Turnover of Internal Auditors

According to the Institute of Internal Auditors (IIA), “Internal Auditing is an independent objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (Protiviti Independent Risk Consulting, 2004b, p. 11). The definition of internal audit indicates that it involves a consulting activity, which requires extensive knowledge of finance, management, and the system of operation of the company concerned. Voluntary turnover of highly skilled employees, who hold organization-specific knowledge, constitute knowledge drain for the organization (Carmeli & Weisberg, 2006). Therefore, when an experienced auditor with a record of good audit performance leaves, it is a costly loss for the company. Employee retention skills are critical core competency for managers because the financial impact of turnover can be up to 200 percent of departing person’s salary (Helpert, 2006). The direct costs of employee turnover includes: separation and severance cost, recruitment and selection cost, and hiring and training cost; the indirect costs includes lost productivity due to existence of a vacancy, deterioration of employee morale, and breakdown of team chemistry (Gustafson, 2001). Employee turnover costs could also be classified into pre-departure, departure, post-departure, and replacement costs (Moody, 2000). The cost of turnover of an internal auditor includes both tangible and intangible costs relating to separation of the outgoing auditor and the replacement cost for the new auditor.

Oxner and Oxner (2006), stated that, “Renewed corporate emphasis on accountability due to Sarbanes-Oxley has resulted in greater visibility for the internal audit function and a growing demand for internal audit services” (p. 57). The level of turnover of internal auditors has increased significantly due to the passage of Sarbanes-Oxley Act of 2002 (SOX). “More companies are looking for auditors for non-internal audit roles such as SOX. This has created a shortage of available candidates for internal audit. It is a matter of both increased competition and supply shortage” (Robert Half Management Resources, 2006b, p. 4). Turnover is now a key phenomenon to internal audit management. A survey by Robert Half Management Resources stated that, “private company CFOs are understandably concerned about their ability to recruit, train and retain staff, with almost one quarter of the survey respondents (23 percent) ranking this as one of their top concerns” (2007b, p6.). If private companies that are not covered by SOX are feeling the internal audit staff shortages this much, we can imagine how badly the public companies that are subject to the provisions of the SOX legislation will be affected by the adverse effect of the internal audit staff shortage. Another survey of participants in an IIA event indicated that about 74 percent of average internal auditors stayed less than five years with a company (Robert Half Management Resource, 2006b, Pg 8). This is an indication of the high level of turnover in the internal audit profession with the SOX legislation serving as the catalyst.

The SOX legislation is one of the most significant changes to the securities laws since 1930s. The purpose of the legislation is to improve corporate governance activities by board of directors, discourage corporate fraud, and enhance the reliability of published corporate financial information. Therefore, SOX affects Internal Audit in at least two ways:

- 1) It promotes satisfactory performance of audit function as a governance tool; and
- 2) Internal auditors are also expected to assist in the execution of SOX tests, which could be relied upon by the external auditors.

The SOX legislation resulted in a significant increase in demand for internal auditors because every company listed on New York Stock Exchange (NYSE) is required by the NYSE regulation to have an internal audit function, and the auditors usually assist management’s efforts to comply with SOX. “In the light of the strong demand for internal auditors companies are understandably concerned about retention.” (Robert Half Management Resources, 2006a, p. 6). Therefore, it is now very crucial and appropriate to conduct research relating to turnover of internal auditors.

Focus of the Research

The main focus of this study is to identify the major variables relevant to the voluntary external turnover of internal auditors. “Identifying the antecedent conditions to turnover is important for understanding, and thus, controlling it” (Vandenberg and Nelson, 1999). When turnover rate of internal auditors is high, top management will need to know the reasons for the inability to retain internal audit staff. Proper use of such knowledge is important to promote internal audit staff retention, and to enhance corporate governance because internal audit is a vital element of management control. A good internal audit department serves as the eyes and ears of board of directors, and also serves as internal consultants for management.

The following are some of the questions that management will be asking if there is a dysfunctional external voluntary turnover of internal auditors: Why is the company unable to retain its internal auditors? Are internal auditors leaving because they are dissatisfied or because another company was targeting our company and luring away our star performers? If quitters are dissatisfied, what is causing their dissatisfaction? Are our internal auditors highly committed to our organization? These are some of the questions that management will be asking in an attempt to control the voluntary turnover, and promote internal audit staff retention.

This research cannot answer all conceivable questions relating to voluntary turnover of internal auditors, instead it will focus on one main question. *What is the relationship between voluntary turnover of internal auditors, job satisfaction, organizational commitment, and availability of alternative opportunities?*

Significance of the Research

This research will seek to answer the question above. The study is valuable because it will help management to identify some factors that cause voluntary external turnover of internal auditors. The result of the study may influence the policies and practices of Human Resources Executives and Chief Audit Executives relating to hiring and retention of internal audit staff. It also relates current theories to current events, such as the impact of the SOX on American companies.

The problem of turnover is a major problem to internal audit departments now due to the extra focus directed at this function by the SOX legislation. A survey conducted by IIA in February 2006 titled “Internal Audit Recruitment and Retention” discovered that 79 percent of the responding Chief Internal Audit Executives stated that they are concerned about voluntary external turnover of their internal audit staff within the next twelve months.

The value of the research to the internal audit profession at this present time could be sizable, due to the high demand for internal auditors mainly caused by SOX legislation. It will contribute to the advancement of the research interest of internal auditors in organizational behavior, which will be beneficial to this profession that requires judgment, tact and other elements of good human relations.

By identifying the factors that are relevant to voluntary external turnover of internal auditors, management will acquire information about what actions to take to improve internal audit retention within their organization. This will result in substantial savings for the organization by efficiently focusing retention efforts and resources on significant causes of external turnover of internal auditors as revealed by this study. The next chapter is the literature review, which sheds more light on our phenomenon of interest, and identifies the relevant variables for our study.

Chapter II

LITERATURE REVIEW

This research benefits from earlier researches relating to attribution theory, audit personnel issues, voluntary turnover, and professional publications relating to internal audit staffing. Relevant research papers and articles are reviewed in this chapter to provide a background for the research project and serve as basis for the formulation of a conceptual framework, which will be subsequently tested in the field by a survey. The literature review is divided into three sections as follows:

1. Relevant researches relating to auditors, and
2. Literature relating to voluntary employee turnover.

Relevant Researches Relating to Auditors

Some work-related factors (e.g. pay, role clarity) and personal demographics (e.g. age, tenure, education, and marital status) have been associated with individuals' levels of job satisfaction. (Cotton and Turtle, 1986) Job satisfaction has been indicated to be an important predictor of voluntary personnel turnover (Arnold and Feldman, 1982).

Snead and Harrell (1991), conducted a study of 81 senior auditors employed by large public accounting firms, only 38 individuals or 47 percent provided usable responses. The research examined the relationships between several psychological factors and the job satisfaction of senior auditors. They stated that, "senior auditors with high achievement motivation, experience reduced levels of undesirable work stress and consequently experience higher levels of job satisfaction"(p.93). However, this study has its limitations, including very small sample size, use of convenience sampling rather than random sampling, and the subjects are senior auditors in public accounting instead of internal auditors.

Wolk (1992) conducted a research about external audit staff attributions for performance and the implications for turnover. She mailed 345 questionnaires to audit staff in public accounting firms and received back 167 questionnaires, out of which five were unusable. Regression analysis and structural equation modeling were used for data analysis. The research concluded among other things that staff auditors who attribute their success to stable internal causes tend to have higher levels of job satisfaction and they are less likely to intend to leave the firm. The study also concluded that auditors seem more motivated by their attributions for success than their attributions for failure. Therefore, she suggested that positive feedback is better than negative feedback for staff retention purposes. The sample used for this study was a convenient sample of three out of the (then) Big 6 accounting firms and one regional audit firm. The result therefore, may not be applicable to all external audit staffs. The study did not cover all the factors relevant to turnover decision, and we are not sure whether or not each subject understood proper classification of attributions before doing it in the questionnaire.

Quarles (1994) conducted a study of the effect of promotion opportunities and the evaluation criteria used, on internal auditor turnover, job satisfaction, and organizational commitment. "In the case of internal auditors Harrell, Chewning and Taylor (1986) report that organizational commitment has a direct positive affect on job satisfaction but no direct effect on turnover intentions" (p.178). Gregson, 1990; Harrell and Stahl, 1984; Snead and Harrell, 1991; conducted studies of accountants in both public accounting and in industry and consistently reported the presence of an inverse relationship between job satisfaction and turnover intent. Harrell et al (1986) reported a significant direct inverse relationship between job satisfaction and turnover intent of internal auditors. "Some of the attributes and factors

which affect commitment, job satisfaction and turnover intentions are personal in nature (e.g. age, tenure, education level) and can be altered and affected only slightly if at all by any organizational actions. Other attributes and factors affecting these outcomes, however, may be related to policies, procedures, and structures which are under direct organizational control” (Quarles, 1994, p.179). Career development and satisfaction with career paths also have significant effect on organization commitment and job satisfaction of employees (Super and Minor, 1987).

According to Quarles (1994), an individual who is dissatisfied with the promotion opportunities afforded him or her in the internal audit function could exhibit behaviors and outcomes such as decreased commitment, reduced satisfaction with the job, and intention to leave internal audit. Unfairness in evaluation criteria used for promotion may also contribute to reduced commitment, job dissatisfaction and intention to leave the organization. Gregson (1992) in his study of accountants preferred a causal ordering where job satisfaction is an antecedent variable to organizational commitment; whereas Harrell et al (1986). preferred that organizational commitment be viewed as an antecedent of job satisfaction. Treating the relationship between job satisfaction and organizational commitment as bi-directional will recognize both of these views. Quarles (1994) mailed out 359 questionnaires to members of three chapters of Institute of Internal Auditors (IIA); 223 were returned, and only 126 of the returned are internal auditors that could be used for the study. Based on data analysis using regression and path analysis he noted a direct inverse relationship between job satisfaction and turnover intentions, and that job satisfaction is directly affected by organizational commitment. He also observed that organizational commitment has an indirect effect on turnover intentions of internal auditors. A limitation of the study was that random sampling was not used. He stated in his conclusion and implication section that improved job satisfaction and reduced turnover intentions would result in more effective internal audit function, which could be more reliable for external auditors and result in reduced audit fees paid to public accountants by the organization. The study was conducted prior to enactment of SOX 2002.

Larson (1997) conducted research relating to internal auditors job-related stress, job burnout, job dissatisfaction, and turnover intentions. She mailed questionnaires to a national sample of 1500 internal auditors who were members of the American Institute of Certified Public Accountants (AICPA). The study examined the relationship among job stress, burnout, job dissatisfaction, job-related self-esteem and intention to quit. It also identified differences in these relationships due to auditors’ position, gender, number of years in the profession, and size of the internal audit department. Correlations analysis of variances, and structural equation modeling were used for data analysis. The study concluded that: job stressors were positively related to job burnout, job dissatisfaction, and turnover intentions; job burnout and job dissatisfaction were positively related to each other; and job-related self-esteem was negatively related to job stressors, job burnout, job dissatisfaction, and turnover intentions. Managers were less stressed than other groups of internal auditors and had significantly higher self-esteem scores. Women’s burnout and intent to leave internal audit scores were higher significantly than men’s scores. Auditors working in internal audit department with 15 or more internal audit staff had significantly higher reported stress levels and significantly higher job dissatisfaction, job burnout and intention to quit. The use of self-report instrument presents participants with tendency for self-serving bias. The sample may be biased because only internal auditors who are members of AICPA were sampled. The study did not use actual turnover information.

Colbert and Kwon (2000) conducted research on internal auditors of colleges and universities. The purpose of the study was to develop a list of variables related to the organizational commitment of college and university internal auditors, using variables identified by past researches conducted on other professionals. They noted that internal auditors are unique type of employees because they do not have authority over company operations. Therefore, auditors rely on management support to effectively discharge their duties within the organization. Survey instruments were mailed to 497 college and university internal auditors who were members of the Association of College and University Auditors

(ACUA). Four follow-up e-mail reminders were sent to each recipient to maximize the return rate. Only 248 completed usable questionnaires were returned, giving a response rate of about 50 percent. Multiple Linear Regression Model analysis was used for data analysis. Organizational commitment was the dependent variable, and three sets of variables were used as the independent variables: job characteristics, organizational characteristics, and demographic information. “The standardized regression coefficients indicate that among several independent variables, organizational dependability and instrumental communication seem to have the largest impact on the dependent variable” (Colbert & Kwon, 2000, p.491).

The study disclosed a negative relationship between job feedback and organizational commitment, which may be due to use of mostly negative feedback style. Good perception of the organization by employees and positive attitude of other employees towards the organization enhance organizational commitment.

“While some of the findings in this study confirm the relationships found in other studies, other findings show that the variables that impact the organizational commitment of internal auditors in colleges and universities differ from the findings for other professions. Gender and organizational tenure were the only demographic variables that were significantly related to organizational commitment in this study. Relationships found in past studies between organizational commitment and age (Sommer et al., 1996; Mathieu and Zajac, 1990), level of education (Steers, 1977; Mathieu and Zajac, 1990), organizational type (Zeffane, 1994; Bourantas and Papalexandris, 1992) was not found to be significant for internal auditors. The insignificant relationship between organization size and organizational commitment did, however, confirm the finding from Mathieu and Zajac’s (1990) meta-analysis. The organizational commitment of females was higher than that of males. This may be explained by differences in perceived alternate employment opportunities.”(Colbert & Kwon, 2000, p.497)

This study indicated that when employees perceive that they are valued by the organization and that the organization is dependable, they show increased commitment levels. Also, improved communication and adequate promotion opportunities may also increase employees’ commitments to the organization. The limitation of the study was that it was conducted using only internal auditors in not-for-profit organizations.

Williams (2003) conducted a study of how outsourcing, which usually results in layoffs, impacts the turnover intentions of the remaining internal auditors. The study proposed that outsourcing creates some job insecurity, which could result in undesirable changes in commitment and higher turnover intentions. She noted that compared to other accounting professionals, research examining internal auditors’ behavior is relatively scarce. The research question for the study was: “How does outsourcing impact the turnover intentions of internal auditors?”(p.4). The study stated that, “Mone (1994) discusses negative attitudes of survivors: increased job insecurity, fear, stress, burnout, lower self-confidence and self-esteem, reduced job satisfaction, and lower commitment to the organization” (p.22). The survey instrument used for this study contained measurements used and validated in prior research. Six hundred companies were randomly selected for survey from a database of the largest 1000 U. S. companies and only 109 companies responded. The instrument consisted of 21 items that assessed the respondent’s attitudes about job insecurity, professional commitment, and turnover intentions. Structural equation modeling was used for the research analysis to determine how well the data fit the theoretical model.

The study concluded that internal auditors did not show elevated levels of job insecurity and stated that the newly promulgated SOX 2002 may have given them a greater sense of security; because the act prohibits the company’s external auditors from rendering internal audit services to the company if it is a registered company with the New York Stock Exchange. The study also concluded that, “job insecurity is significantly associated with professional commitment, organizational commitment, and turnover intentions. The accounting and organizational behavior literatures consistently find significant, negative

relationships between job insecurity and organizational commitment (Ashford, Lee, & Bobko; 1989, Bryington and Johnston; 1991, Ameen et al; 1995, and Rosenblatt and Ruvio; 1996). The results of this study were consistent with the prior research” (Williams, 2003, p.62).

However, the study also concluded that the relationship between organizational commitment and turnover intention was not significant which is not consistent with prior research such as Ameen et al. 1995; Byington and Johnston 1991; Williams and Hazer 1986; and Porter et al. 1974. This may be due to inclusion of professional commitment as a variable in the model. The total survey received from the 109 companies for this study was 206, this sample size is very close to the minimum required sample size for use of structural equation modeling.

Kwon and Banks (2004), conducted research to uncover factors that leads to professional and organizational commitment of internal auditors. They stated that prior research indicated that organizational commitment of professionals leads to key outcomes such as decreased turnover (Porter et al, 1974), higher motivation (Farrell and Rushbult, 1981) higher organization citizenship behavior (Anderson and Balzer, 1991), and organizational support (Eisenberger et al, 1990). Kwon and Banks, used survey instruments to measure organizational commitment, professional commitment, and three control factors (job characteristics, organizational characteristics, and professional characteristics); also the survey instrument captured several demographic variables. Five hundred survey instruments were sent to internal auditors who were members of the St. Louis Chapter of IIA, with three subsequent reminder e-mails. Only 145 usable surveys or 29 percent were returned. Twelve additional surveys were sent to known non-responders to test non-response bias and all 12 useable surveys were returned, and content analysis showed no bias between the two groups.

Organizational commitment was used as a dependent variable and four sets of variables were used as the independent variables: job characteristics, organizational characteristics, professional characteristics, and demographic information. Multiple linear regression models were used for data analysis. They noted that respondents in the services sector seems to have lower level of commitment than those in manufacturing sectors, and that certified internal auditors appear to have less commitment. Organizational dependability, promotional opportunity and instrumental communication all appear to be significantly related positively to organizational commitment. The research also concluded that skill variety had a significant positive relationship with organizational commitment, which is in line with conclusion in other studies (Dunham et al., 1994; Bhuian et al., 1996). However, feedback, and other job characteristics, had a significant negative relationship with organizational commitment, which is contrary to the result found by Dunham et al (1994). This may be due to negative feedback usually received by internal auditors. Total surveys used for the study is 157, therefore, care must be exercised before generalizing its findings to real-life situations. The next literature review relates to the relevant researches and articles on voluntary turnover generally.

Literature Relating to Voluntary Turnover

Porter, et al. (1974) conducted research relating to organizational commitment, job satisfaction, and turnover among psychiatric technicians. The 10½-month longitudinal study compared the turnover predictive powers of organizational commitment and job satisfaction. They defined organizational commitment in terms of the strength of an individual’s identification with and involvement in a particular organization. “Such commitment can generally be characterized by at least three factors:

- a. a strong belief in and acceptance of the organization’s goals and values;
- b. a willingness to exert considerable effort on behalf of the organization;
- c. a definite desire to maintain organizational membership.” (p.604).

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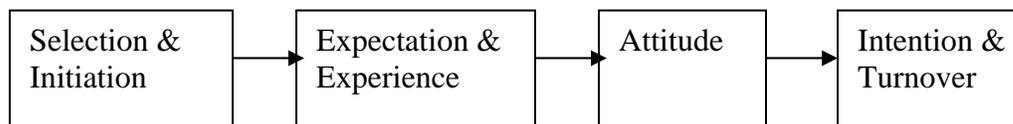
The study identified the components of job satisfaction as: satisfaction with pay, promotion, supervision, coworkers, and the work itself.

Two groups of psychiatric technician trainees employed by a hospital for mentally retarded were studied. Sixty individuals from these two groups constitute the initial study group. A 15-item organizational commitment questionnaire was used to measure organizational commitment and Job Descriptive Index was used to measure the five aspects of job satisfaction enumerated above. The instruments were administered longitudinally in four sequential periods by the researchers, starting 10 weeks before the end of the training program. The researchers collected turnover data based on hospital records up to eight months after the completion of the training program; and the sample was divided into *stayers* and *leavers*. The purpose of the study was to uncover the patterns in organizational commitment and job satisfaction over a period of time as they relate to turnover among psychiatric technicians.

The result of the study indicated that “commitment to the organization was clearly the most variable in differentiating between stayers and leavers. Satisfaction with opportunities for promotion and satisfaction with work itself were next most important”(p.606). The group means of stayers and leavers indicates that stayers had more positive attitudes (commitment and job satisfaction) than the leavers. The relationship between attitudes and turnover seems to grow stronger with time. However, general decline in level of attitudes takes place prior to leaving the organization (Porter et al, 1972). The result of study of the psychiatric technicians indicated that organizational commitment and job satisfaction are related but distinguishable attitudes. It indicated that organizational commitment takes more time to form and lasts longer than job satisfaction. Job satisfaction relates to specific aspects of work environment and forms more quickly and is more transitory compared to organizational commitment.

The limitation of the study was that the participants were non-professional employees working for non-profit organization. Therefore, it may not be generally applicable to all employees, especially higher-level employees such as internal auditors. This study supports the traditional model of voluntary turnover, illustrated below in Figure 1:

Figure 1 - The Traditional Model of Voluntary Turnover



Blau (1987) conducted a longitudinal study of 119 nurses working at a large hospital located in a mid-western city of United States. The questionnaire for this study was administered twice in an interval of seven months apart. The questionnaire measured locus of control, job satisfaction, withdrawal cognitions (intention to quit), and voluntary turnover. Regression analysis was used for data analysis. According to Rotter (1966), internal-external locus of control is a concept that seeks to ascertain whether an individual attributes the cause or control of events either to himself (internal locus of control) or to his environment (external locus of control). The correlation for workers with internal locus of controls (internals) between their satisfaction with supervisor and intention to quit was -0.44 while for workers with external locus of control (externals) it was -0.12. The correlation for internals between intention to quit and turnover was 0.67 while for externals it was 0.23. The study showed that internals are more likely to leave once they have formed intentions to do so than externals. He concluded that personality traits are relevant to the voluntary turnover process. However, the generalize-ability of this study is questionable because nurses have more flexibility in their jobs than factory workers.

Carsten and Spector (1987) conducted a meta-analysis to ascertain the relation between satisfaction-turnover correlations across studies and unemployment rates at the time those studies were conducted. They analyzed turnover researches conducted in the late 1970s and early 1980s. From Muchinsky and Morrow (1980), they noticed that economic opportunity factors, including local and national unemployment, had the strongest impact on turnover. When there is high unemployment, there will be low opportunity for alternative employment; therefore, relatively few individuals will quit their jobs. Thus, the correlation between job satisfaction and turnover will be low. During period of low unemployment, more dissatisfied employees will quit and the satisfaction to turnover correlation will be high. The economy acts as a releaser or enabler, allowing satisfaction to best predict turnover during periods of low unemployment (Hulin, Roznowski, & Hachiya, 1985). The Carsten and Spector (1982) study used satisfaction-turnover researches ranging from 1947 to 1983 in U.S.A. The meta-analysis indicated that the relationship between job satisfaction and turnover reduces as unemployment rate increases. Therefore, the relationship between job satisfaction and turnover was strong during period of low unemployment, when jobs were plentiful; the relationship became weaker as employment level reduced or jobs became scarce. The study also indicated that the relationship between intention to quit and actual turnover weakens as unemployment rate increases. This study noted that turnover researchers should state the prevailing unemployment rate during the period of their research, to enhance comparability of research findings. Also, the time span of the data collection should be stated, because turnover relationship changes with time.

Gehart, B (1990) citing Steers and Mowday (1981) and Michaels and Spector (1982) “argued that intention to quit is more likely to result in voluntary turnover when alternative jobs are generally more available” (p.467). He conducted a study on voluntary turnover using data from the youth cohort of the National Longitudinal Surveys with a sample size of 1,395. The sample was young, geographically and occupationally diverse. His findings indicated that voluntary turnover was influenced by unemployment rate and the perceived ease of movement. He noted a direct relationship between voluntary turnover and unemployment rate. He concluded that “as labor-market conditions become more generally favorable, employees who intend to leave may actually do so in increasing numbers”(p.475). The main limitation of this study is that sample used consisted of relatively young workers with limited job and job-changing experience.

Lance C. E. (1991) conducted a study to evaluate competing hypotheses about the relationship between job satisfaction and organizational commitment in relation to voluntary turnover. He stated that “Job satisfaction is traditionally defined as an affective reaction to relatively specific aspect of one’s job (Locke, 1976), while organizational commitment is generally viewed as a global affective reaction to the organization as a whole (Dougherty et. al., 1985; Mowday et al., 1982; Williams and Hazer, 1986)” (p.141). He noted that some researchers including Dougherty et al., (1985) have argued that satisfaction and commitment are not causally related.

Whereas, some researchers including Bateman and Strasser, 1984, stated that a causal relation exists from commitment to satisfaction. Yet other researchers, including Rusbult and Farrell (1983) argued the reverse order; that is, job satisfaction leads organizational commitment. However, Price and Muller (1981) suggested possible reciprocal relationship between job satisfaction and organizational commitment.

Lance (1991) used a sample of 1,870 employees of a national telecommunications company based in the southeastern United States for his study. He evaluated the measurement portion of the model used for the study with confirmatory factor analysis. His findings strongly supported a reciprocal relationship existing between job satisfaction and organizational commitment, and that satisfaction appeared to be a stronger cause of commitment than commitment causing job satisfaction. The limitations of this study included the use of very brief questionnaire due to management insistence and the absence of cross-validation of

results from exploratory studies. The study generally supported an asymmetrical reciprocal relationship between job satisfaction and organizational commitment. The study focused on processes preceding premeditated or non-impulsive voluntary turnover.

Gregson, T. (1992) analyzed two sets of previously published data (Lachman and Aranya, 1986; Colarelli et al., 1987) using structural equation modeling to examine the causal ordering and importance of organizational commitment and job satisfaction. He noted that Harrell (1990) hypothesized and found support for a reciprocal relationship between commitment and satisfaction. The results indicated that both job satisfaction and organizational commitment should be included in voluntary turnover model, and that a causal link exists between job satisfaction and organizational commitment. He stated that “when the link between job satisfaction and organizational commitment is omitted in either direction, the fit of the data to the model suffers, which may indicate the presence of a reciprocal relationship”(p.92). It concluded that the model with satisfaction antecedent to commitment is more reliable than the model with commitment antecedent to satisfaction.

Kirschenbaun and Mano-Negrin (1999) conducted a longitudinal study of 707 employees in eight medical centers in Israel to ascertain the effect of alternative job opportunities on voluntary turnover. They explained perceived internal job opportunities in terms of department and organizational opportunities. They construed perceived external opportunities as the perception of jobs availability at national level, and local labor market. They concluded that perception of internal opportunities reduces voluntary external turnover. They also concluded that objective opportunities should be included in the turnover model rather than the perceived opportunities.

Mitchell et al (2001b) conducted a study to use a new construct named “job embeddedness” to explain voluntary turnover behavior. Traditional turnover model emphasizes that turnover depends on job attitudes (satisfaction and commitment) and ease of movement (alternative job opportunities). Embeddedness can be broadly classified into organizational embeddedness and community embeddedness. They stated that “Job embeddedness represents a broad constellation of influences on employee retention” (p.1104). They also described it as a web or net which can keep an employee stuck. Embeddedness has three components, namely: *Fit*, *Link* and *Sacrifice*. *Fit* is the compatibility of the employee with the organization and the community. *Link* is the relationship between the employee and people in the organization or the community. *Sacrifice* is the perceived cost or forgone benefit due to job change or turnover, e.g. sale of family home out at a loss, due to relocation for job change.

This study used a sample of 177 grocery store employees and a sample of 208 hospital employees. The alpha coefficients of reliabilities for the survey measures were 0.8 and 0.87, for grocery employees and hospital employees, respectively. The study concluded that embeddedness is negatively correlated with employees’ intentions to leave, and with turnover. It also concluded that embeddedness improves the prediction of voluntary turnover beyond the prediction based on job satisfaction, organizational commitment, perceived job alternatives, and job search. A limitation to the use of this theory was that it is easier to use for a longitudinal study than a one time study. It is difficult to determine which items to include or exclude from an embeddedness evaluation instrument. Unlike the traditional model of turnover involving perception, attitude, and ease of movement, embeddedness theory was designed specifically to predict why people stay on a job. In fact, an argument was made whether job embeddedness could actually facilitate voluntary turnover. The authors stated that, “strong networks, especially off-the-job, might lead to unsolicited job offers or knowledge about other positions” (p.1117). Similarly, an employee who is highly embedded at work may experience work-family role conflict, which may result in voluntary turnover.

However, the embeddedness theory of employee turnover is meant to augment the traditional turnover theory. It is an incremental theory, which does not strive to replace the traditional theory. Low levels of

embeddedness could make an employee more susceptible incidents. “What low levels of embeddedness may do is make employees susceptible to shocks and dissatisfaction- if they occur, it is easier to search and leave” (Mitchell et al., 2001, p.1118). Embeddedness and its effect could be moderated by employee personality traits.

Hom and Kinicki (2001) conducted a study of how job dissatisfaction leads to employee turnover. The study cited Mobley (1977) that job incumbents in vocations other than nursing, more often solicit or secure jobs before leaving current job voluntarily. The study used a survey of 438 employees of a national automotive retail store chain, including supervisors, mechanics, and salespersons. They found that withdrawal behavior and job search directly correlate to voluntary turnover. Job avoidance, which is a form of withdrawal behavior, partly mediates the path from dissatisfaction to voluntary turnover. “Organizations should thus regard excessive absences or tardiness as signs of impending resignation (p.984). The authors also noted that conflict between work role and family role also leads to intention to quit. Companies offering nontraditional work arrangements such as flextime, part-time work, etc could mitigate turnover due to work-family role conflict. The distinction between avoidable and unavoidable turnover may not be clean cut; and classifying a turnover due to inter-role conflict as unavoidable may be misleading because employees give personal reasons for turnover sometimes to maintain good relationship with former employer. Job market effects on turnover supports the report of Lee et al (1999) that job offer shocks can cause satisfied incumbents to quit. They concluded that unemployment is a moderator of the path from intention to quit and actual turnover. The limitation of this study was that it may not be directly and totally applicable to white collar professionals such as internal auditors.

Eisenberger et al. (2002) conducted three studies to determine the effect of Perceived Supervisor Support (PSS) on Perceived Organization Support (POS) and employee retention. PSS should decrease voluntary employee turnover by increasing POS. Based on reciprocity norm, PSS should increase obligations to the supervisor and to the organization (Malatesta, 1995). Study 1 involved a sample of 314 alumni of a Belgian University who graduated between 1997 and 1998. After the first questionnaire was completed and returned, a second set of questionnaires was sent three months later as explained in the first questionnaire. The purpose of Study 1 was to determine the relationship between PSS and POS. Study 2 was conducted using 300 employees who worked for a chain of large discount electronics and appliance stores located in northeastern United States. The purpose of Study 2 was to examine the moderating effect of the supervisor’s perceived status in the organization on the PSS-POS relationship. Study 3 was conducted using 493 employees including employees used in Study 2 from the same company. The purpose of Study 3 was to assess the relationships among PSS, POS, and turnover. The studies concluded that, PSS was positively related to POS and negatively related to turnover. Employees seemed to infer POS from PSS based on their perception of their supervisors’ status within the organization. Relationship between PSS and POS was greater for employees who perceived their supervisors to have high informal status in the organization.

“Employee perceptions of supervisor status would be based on personal observation of upper management’s treatment of supervisors as well as the communicated views of upper management, supervisors, and fellow employees” (p.571). Study 3 results indicated that POS mediates the negative relationship between PSS and voluntary turnover. Employees who perceived that their supervisor valued their contributions and cared about their well-being showed higher POS, which leads to decreased turnover. The results of these studies may not be totally applicable to internal auditors because the chief internal auditor usually lacks executive power within the organization.

Stovel and Bontis (2002), cited a quotation by Wayne F. Cascio that, “the crucial issue in analyzing turnover is not how many employees leaves but rather the performance and replaceability of those who stay.” (p.303). They conducted a study of 19 Canadian financial service firms and their current human capital practices. They noted that managers need to recognize that employees are major contributors to

the efficient achievement of the company's success. They also mentioned that existing research estimated that hiring and training a replacement worker for a departed employee costs about 50 percent of the worker's annual salary plus loss of productivity as new employee is learning to understand the job and the organization. Other costs of turnover mentioned include loss of intellectual capital involving loss of human and relationship capitals as well as the fact that a competitor may hire the departing employee. The article explained that involuntary turnover occurs when employees are dismissed whereas voluntary turnover occurs when employees resign.

Voluntary turnover can be very costly to the organization because the departing employees may join competitors and use their knowledge against the organization, which they left. The article mentioned that turnover could be functional (i.e. bad performers leave, good performers stay) which can help mitigate sub-optimal organizational performance, or dysfunctional turnover (i.e. good performers leave, bad performers stay) which hurts the organization through reduced innovation, delayed services, poor implementation of new programs, and decreased productivity. Companies should proactively manage their turnover to prevent the smartest and most talented employees from leaving. The article also stated that Abassi and Hollman (2000) highlighted five reasons for employee turnover in an organization as follows: Hiring Practices, Managerial Style, Lack of Recognition, Lack of Competitive Compensation Systems, and Toxic Workplace Environments. It was also mentioned that economics research has proven that investing in pay and benefits reduces voluntary turnover. The article mentioned that turnover can be combated through the implementation of "high performance work practices" such as internal promotions, performance based promotions, skill-based pay, profit sharing pay, employee stock ownership, cross-training and training for future requirements.

The article stated that, "another factor contributing to employee satisfaction is a consistent and impartial performance review" (p.307). It was mentioned that researchers studying voluntary turnover suggest that the two primary factors affecting employees are the attractiveness of the current job and the availability of other opportunities. Training employees enhances employee loyalty, as many workers will appreciate that the firm is working to help them attain their career goals. The research concluded that, "in the case of the Canadian financial services industry, voluntary turnover is in fact a foe of knowledge management" (p.320). The conclusion of this study may not be applicable to internal auditors in the United States.

Bentein et al. (2005) conducted a study to test whether individuals experience significant changes in the level of commitment in the workplace across time. A random sample of alumni of a Belgian University who graduated from 1988-1997 was used. They were informed that they would complete three waves of questionnaires. The number of samples selected was 1,277. The study found that individuals experience change in commitment across time. The findings also suggested that it is change in commitment level that is important to turnover and not necessarily the level of commitment at a given time, and that organizational commitment is dynamic. A limitation of this study is due to the young graduates used and the culture of Belgium may influence the findings of the study.

Barrick and Zimmerman (2005) conducted research about identifying applicants with high propensities for voluntary turnover prior to employment. The research was conducted with a combined pool of 445 actual job applicants; made up of 176 applicants of a nonprofit company and 269 applicants of a large meat-processing company, both in the Midwest United States. These applicants were surveyed to obtain biographical data, attitudinal data, dispositional data and turnover intention. The means, standard deviations, and correlations among variables were computed. Logistic regression was also computed to confirm the outcomes of the least squares regression.

"Overall, the results revealed that pre-hire dispositions, attitudes, and behavioral intentions predicted voluntary, organizationally avoidable turnover, whether it was assessed with clear-purpose retention scales or disguised-purpose retention scales" (p.163). The authors explained the distinction between

organizational avoidable turnover such as employee leaving due to low pay, and unavoidable turnover such as employee leaving for further studies, may not be crystal clear. Some employees may inform management that they are leaving for further studies instead of the actual reason of low pay, so as to keep a positive relationship with the organization. The study also revealed that the type of voluntary turnover did not materially affect the predictive validities of the examined variables. The multiple correlations for avoidable and unavoidable voluntary turnover was $R=.36$ whereas for organizational avoidable voluntary turnover, $R=.37$. This study also revealed that employee's intention to quit could be formed prior to employment contrary to most turnover models that place intention to quit just before actual turnover. The authors suggested that where intention to quit is placed in a turnover model may depend on whether it is assessed before or after engagement. The majority of the applicants studied in this research were high school graduates. This may limit the applicability of the findings to professionals such as internal auditors.

Allen, Weeks, and Moffitt (2005) conducted research to explore the possibility that personality moderates the relationship between intentions to quit and turnover behavior. Two samples were used to conduct the research. Sample 1 consisted of 279 employees of an entertainment and gaming corporation in the southern United States. The participants voluntarily completed a survey. The survey instrument measured satisfaction, commitment, self-monitoring, locus of control, ease of movement, proactive personality, turnover intentions, and turnover. Only 14 percent of the participants had completed college. After one year of administering the survey it was noted that 18 percent of the sample had left voluntarily. Sample 2 consisted of 268 employees of a large bank in the southern United States. The sample consisted of 67 percent female, 55 percent were college graduates, 19 percent had some post graduate education; and the average age of the sample was 29 years old. The survey instrument for Sample 2 excluded self-monitoring and pro-active personality, but included risk aversion. Quantitative analysis of the findings indicated interesting results. Sample 1 indicated that as self-monitoring increases, the effects of turnover intentions on actual turnover get weaker. Similarly, the study indicated that, the more internal the locus of control of an employee the stronger the effect of turnover intentions was on actual turnover. There was no significant indication that proactive personality moderates the turnover intentions to actual turnover relationship.

Results from Sample 2 indicated that as locus of control becomes more internal, the effect of turnover intentions on turnover got stronger; and the significance of this finding is higher than in Sample 1. The study also indicated that effect of turnover intentions on turnover get weaker as the level of risk aversion increases. "In this study, self-monitoring and risk aversion affected the translation of intentions into quitting, locus of control did so in one sample but not significantly in another, and proactive personality did not" (p.986). These findings showed that personality traits are important reasons why some employees who intend to quit actually do and why others do not. "Some withdrawal models suggest multiple potential responses to dissatisfaction, such as expressing voice, attempting change, neglecting, and turning over (Farrell, 1983). If internals believe that change is possible they may intend to leave only if they are unsuccessful in changing the environment" (Allen, Weeks, and Moffitt, 2005, p.988). The study should be carefully used in generalization and prediction because Sample 1 was made up of about 86 percent non-college graduates, whereas Sample 2 consisted of only 33 percent male employees.

Holtom and Inderriden (2006) conducted a longitudinal study using 1,898 out of all individuals who were registered for Graduate Management Admissions Test (GMAT) from 1990 to 1998. The subjects completed surveys relating to voluntary turnover, job embeddedness, job satisfaction, and reasons for leaving. The purpose of the study was to use the unfolding model of turnover and the job embeddedness model to increase the understanding of the voluntary turnover process. The major variable introduced by the unfolding model was *shock*.

According to Lee and Mitchell (1994), “A shock is a particular, jarring event that initiates the psychological analyses involved in quitting a job” (p.51). The job embeddedness theory states that the greater an employee’s connections to an organization and community, the more likely he or she will remain in the organization. The three dimensions of embeddedness were: fit between the employee and the job, the link formed with others, and the sacrifice or cost involved in leaving the job. Mitchell and Lee (2001), indicated that low levels of embeddedness can make employees susceptible to shocks and dissatisfaction. Holtom and Inderriden (2006) noted that the correlation between job embeddedness and voluntary turnover was negative and significant ($r = .16$ and $p < .001$), and that job embeddedness significantly improved the prediction of turnover after controlling for job satisfaction. It was also noted that, job embeddedness among stayers was higher than for leavers, and job embeddedness was higher for shock-induced leavers than for non-shock induced leavers. One should be careful in generalizing the result of this study because 72.5 percent of participants were married, which is a higher percentage than the US population of married persons. Married persons may be less willing to quit due to more financial responsibilities compared to single persons.

Harman, et al (2007) discussed two new theories of turnover which are complementary to the traditional attitude-turnover model. These are the same theories used in research above by Holtom and Inderriden (2006). The first theory was the unfolding model of voluntary turnover developed by Lee and Mitchell (1994). This approach shifted the conceptualization of turnover as evaluative rational process to that driven by more intuitive or routinized decision process. Under this model, information input that leads to employment evaluation is referred to as shock. A shock may trigger an existing script or predetermined course of action. For example, if this happens then I will leave this job. Shock may cause an employee to leave without considering job alternatives even when there was no existing script. A shock such as another job offer may trigger employment evaluation and may result in voluntary turnover.

Mitchell, et al (2001b) discussed further his concept called ‘job embeddedness’ to explain the reasons employees remain employed in an organization. Job embeddedness is like a web of forces that keep an employee in a job. There are three dimensions of embeddedness; namely: fit, link and sacrifice. Fit is the employee’s perceived compatibility with the organization and with the community. Links are formal and informal connections an employee has within an organization and with the community. Sacrifice is the perceived cost of turnover. Lee et al (2004), “reported that off-the-job embeddedness predicted absences and turnover (over and above that of job satisfaction and organizational commitment), whereas on-the-job embeddedness did not” (Harman et al., 2007, p. 53). Embeddedness model expanded the scope of variables to be considered for voluntary turnover, including off-the-job factors.

Summary of Literature Review

The research literature reviewed in this chapter advanced several conclusions, including:

- Snead and Harrell (1991) stated that senior auditors with high achievement motivation experience, has reduced level of undesirable work stress, and consequently has higher levels of job satisfaction and low levels of turnover.
- Quarles (1994) stated that unfairness in evaluation criteria or dissatisfaction with promotion opportunities by an internal auditor could lead to decreased organizational commitment, reduced job satisfaction, and intention to quit.
- Larson (1997) stated that job stressors were positively related to burnout, job dissatisfaction, and turnover intentions.
- Williams (2003) concluded that job insecurity is significantly associated with professional commitment, organizational commitment, and turnover intentions.

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- Porter et al. (1974) concluded that organizational commitment was the key variable differentiating stayers from leavers, and that the next important variable in this regard is job satisfaction.
- Blau (1987) concluded that individual traits such as risk averse and locus of control are relevant to the voluntary turnover process.
- Carsten and Spector (1987) concluded that the relationship between job satisfaction and turnover was strong during period of low unemployment and the relationship became weaker during period of high unemployment as jobs became scarce. Also, the relationship between intention to quit and actual turnover became weaker as unemployment rate increases.
- Lance (1991) concluded that there is a reciprocal relationship between job satisfaction and organizational commitment, and that job satisfaction appeared to be stronger cause of organizational commitment than commitment causing job satisfaction.
- Kirschenbaun and Mano-Negrin (1999) concluded that perceived internal opportunities reduces voluntary external turnover.
- Mitchell et al. (2001) concluded that embeddedness is negatively correlated with employees' intention to leave and with turnover.
- Hom and Kinicki (2001) concluded that unemployment level is a moderator between intention to quit and actual turnover.
- Bentein et al. (2005) concluded that it is the level of change in commitment at a given time that is important to turnover and not necessarily the level of commitment at a given time. Organizational commitment changes over time.
- Barrick and Zimmerman (2005) concluded that pre-hire dispositions, attitudes, and behavioral intentions predicted voluntary, organizational avoidable turnover.
- Holtom and Inderrieden (2006) concluded that job embeddedness among stayers was higher than for leavers, and that job embeddedness was higher for shock-induced leavers than for non-shock-induced leavers.
- Harman et al. (2007) stated that shock (e. g. death in family or birth of a baby) may cause an employee to leave without considering job alternatives or without pre-existing job dissatisfaction.

None of the literature reviewed relating to internal auditors really focus on the big picture of why auditors quit, instead each focus on identifying the sub-factors that affect one or two factors that may contribute to voluntary turnover of auditors, such as organizational commitment, job satisfaction, job stress, feedback and promotion, job security, etc.

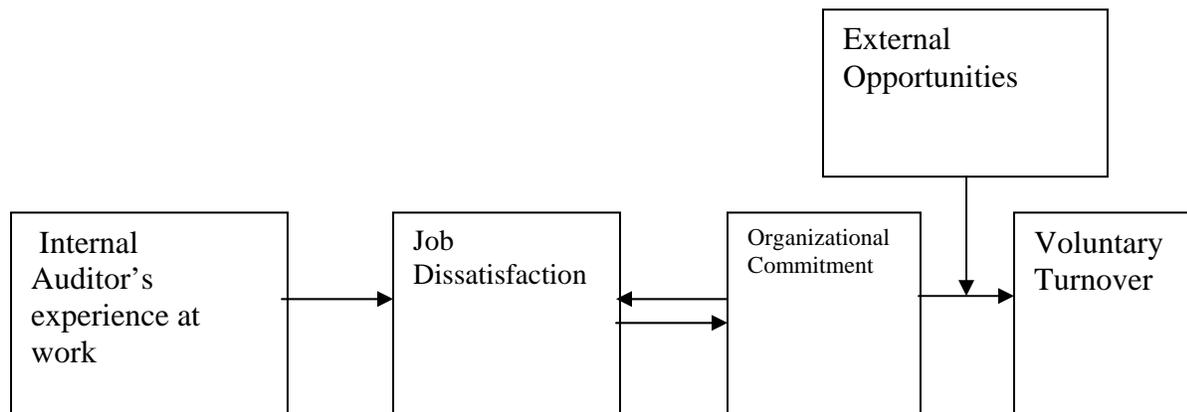
The next chapter presents the hypotheses to be tested; and discusses the methodology for the research.

Chapter III

RESEARCH HYPOTHESES AND METHODOLOGY

This chapter includes: formulation of hypothesis to be tested, and discussion of the research methodology. It is not feasible for this research to study all the variables relevant to voluntary external turnover of internal auditors. The research will focus on the effect of job dissatisfaction, organizational commitment, and availability of external opportunities on voluntary turnover of internal auditors. The selected variables to be studied can be represented diagrammatically as below:

Figure 2. The Variables to be Studied Relating to Internal Auditors' Voluntary Turnover



The Research Questions

The complexity of the conceptual framework shows that the voluntary turnover process is very personal and very complex. Therefore, it is difficult for a research to answer the question “Why do internal auditors quit?” However, the goal of this study is to make contributions towards the answering of that question by providing partial answers. Some relevant variables from the conceptual framework are selected based on the literature review, which will be tested for relevance to the process of voluntary external turnover of internal auditors (see Figure 2 above). Similarly, the hypotheses formulation will address key relationships involving these selected variables. This study will attempt to answer the following specific questions:

- What is the relationship between job dissatisfaction and voluntary turnover of internal auditors?
- What is the relationship between organizational commitment and voluntary turnover of internal auditors?
- What is the relationship between availability of external alternatives and voluntary turnover of internal auditors?

These questions will now serve as basis for the formulation of hypotheses for the research.

Hypotheses Development

The hypotheses for the study can be classified into two groups:

1. Employee attitude and voluntary turnover hypotheses.
2. External alternatives and voluntary turnover hypothesis.

The first set of hypotheses explores relationships between internal auditors' attitude and voluntary turnover. Lower levels of job satisfaction and organizational commitment characterized leavers (Porter et al; 1974). "The model with satisfaction antecedent to commitment does a better job of predicting turnover than the model in which commitment is antecedent to satisfaction" (Gregson T, 1992). Senior auditor's job satisfaction directly determines their long-term intentions (Snead and Harrell, 1991). Williams and Hazer (1986) stated that organizational commitment has more significant effect on intention to quit than job satisfaction. The relationship between internal auditors attitude and turnover is not totally settled because some research resulted in a different conclusion for example, "Harrell, Chewing, and Taylor (1986) reported that organizational commitment has a direct positive affect on job satisfaction but no direct effect on turnover intentions" (Quarles, 1994, p.178).

Based on these prior researches, the following hypotheses are formulated:

- H1 – The level of employee's job satisfaction will be negatively related to turnover.
- H2 – The level of employee's organizational commitment will be negatively related to turnover.

The second set of hypothesis explores the relationship between the external opportunities available to internal auditors and voluntary turnover. Job satisfaction tends to translate more into turnover when unemployment rate is low (Carsten and Spector, 1987; Gerhart, 1990). Employees with longer tenure may choose to stay even when there are attractive alternatives (Gerhart, 1990). In periods of low unemployment, the relationship between intention to quit and actual turnover will be weak (Muchinsky and Morrow, 1980). Unemployment weakens the path from intention to quit to voluntary turnover (Hom and Kinicki, 2001). Economic prosperity yields unsolicited jobs, which translate to voluntary turnover (Gerhart, 1990). Based on the above researches, the following hypothesis is developed:

- H3 – The availability of external opportunities will be positively related to voluntary turnover.

Research Methodology

This research is a quantitative study using an opinion survey instrument. The instrument will be completed by four hundred and fifty internal auditors, who are members of the Institute of Internal Auditors (IIA), St. Louis Chapter. Their responses will be analyzed to test the above-stated hypotheses. The instrument contains many questions used and validated in prior studies. The sample population consists of all currently registered members of IIA in USA. The sample for the study is selected at random systematically from the St. Louis Chapter of IIA membership list. Two weeks was allowed for response to the survey, which was sent to the selected auditors by the Chairperson of the Research Committee of IIA St. Louis Chapter, using cover letter with the Chapter's letterhead. E-mail reminder was sent to non-responders after one week.

The survey instrument (See Appendix 1) is a four page, letter-size document divided into three sections, namely A, B, and C. *Section A* contains five general questions that may be relevant to voluntary turnover phenomenon. *Section B* contains 20 items that are relevant to internal auditors who changed

jobs at least once in the last five years. *Section C* contains three items that are relevant to internal auditors who remain with the same company in the last five years.

Sixty percent of questions to be used for analysis in this research indicated high internal reliability with Cronbach's alpha of 0.78 (Tsui et. al., 1992 and Marsden et. al., 1993). Responses to the survey was analyzed and presented with the aid of Excel spreadsheets.

Survey Responses

Two batches of surveys were used for this study. The first batch was 55 surveys used to test whether the questions on the instrument was understandable. The second batch was 395 additional surveys. All the samples were selected randomly from the list of 986 members of St Louis Chapter of IIA. Out of the 450 surveys e-mailed, we received back 132 completed and useable surveys. Not every respondent answered all the questions in the survey; it seems each respondent answered only the questions that relates to him or her. Therefore, we based the percentage of response to each question on the number of responses received on the question.

The next chapter analyzes the data collected and discusses the findings of the study.

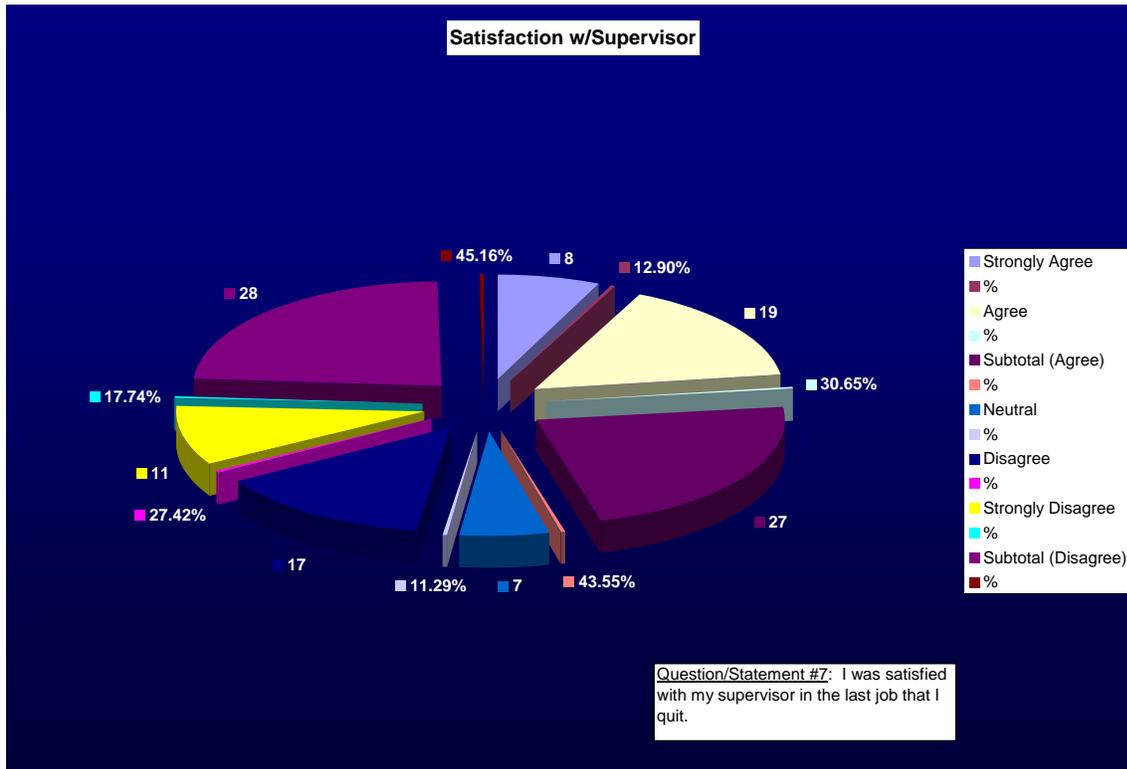
Chapter IV

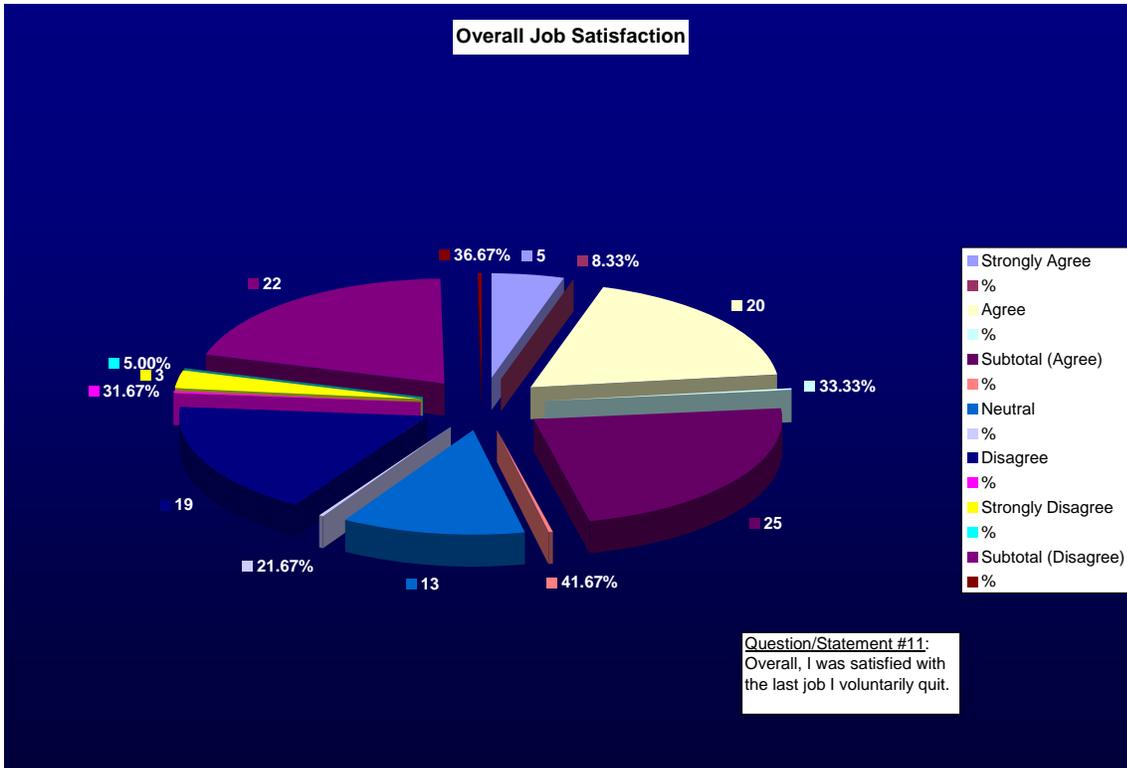
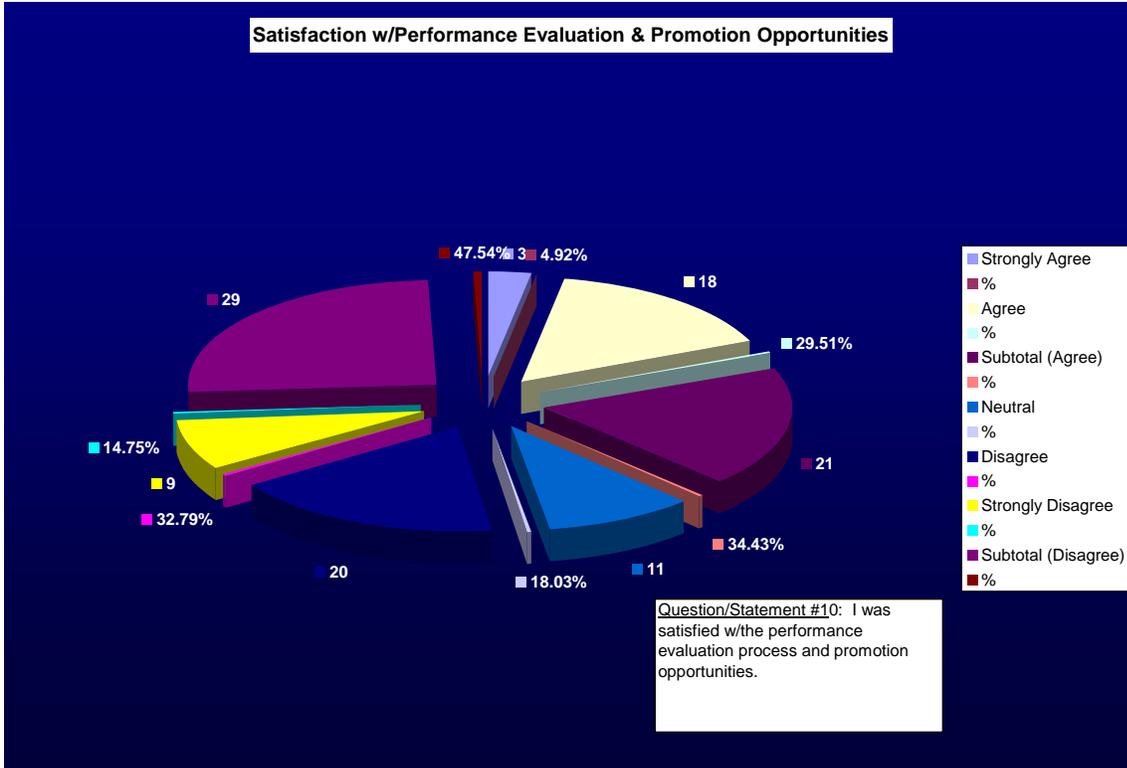
RESULTS

This chapter analyzes and discusses the responses received from the administration of the survey instrument.

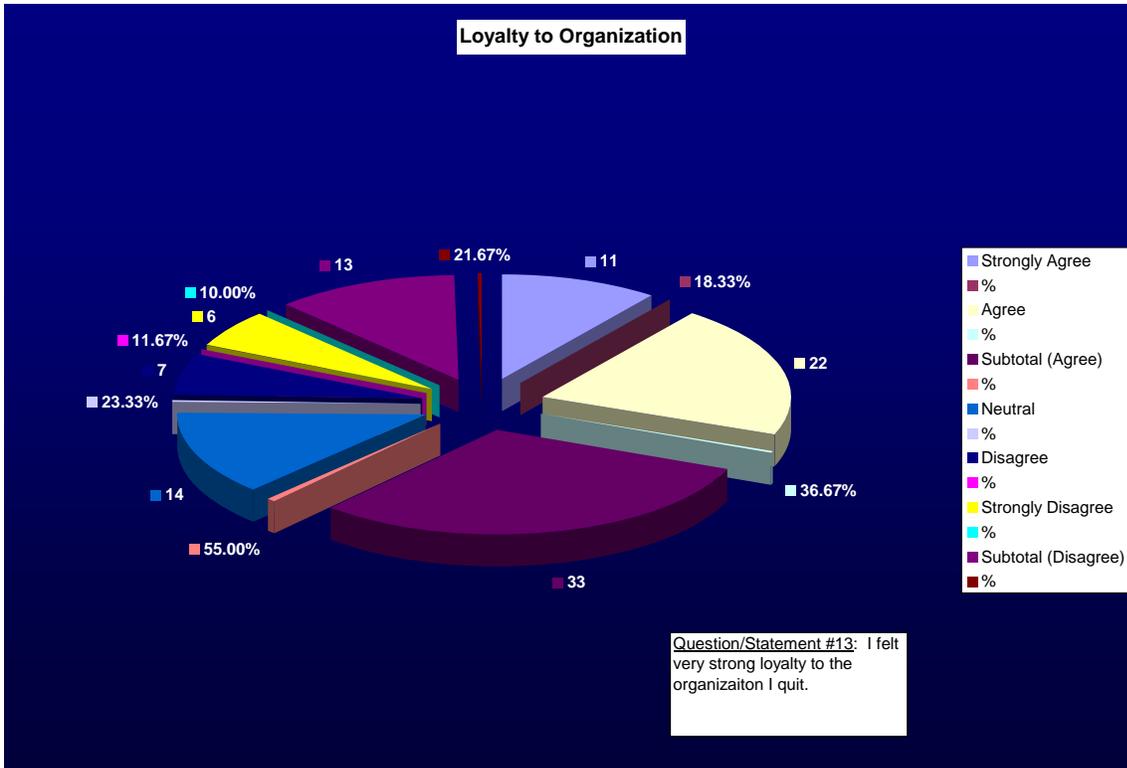
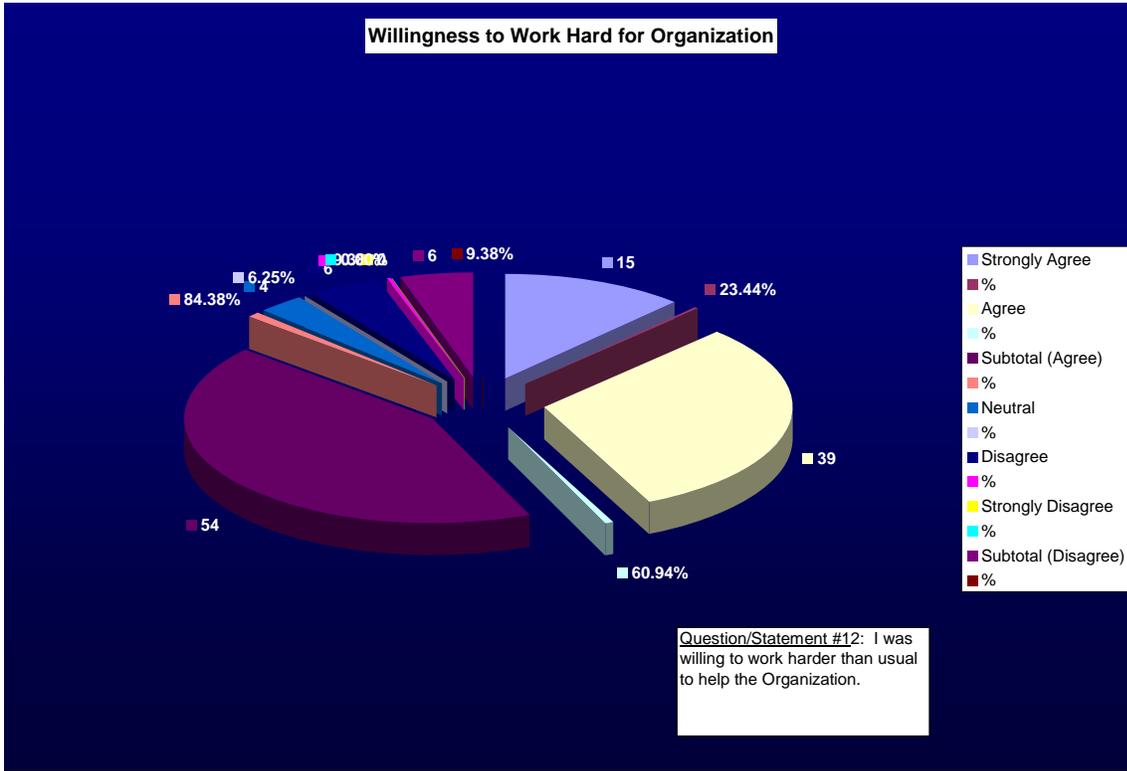
Data Analysis

The following are the pie charts representing the responses to the relevant questions used for data analysis and discussion.

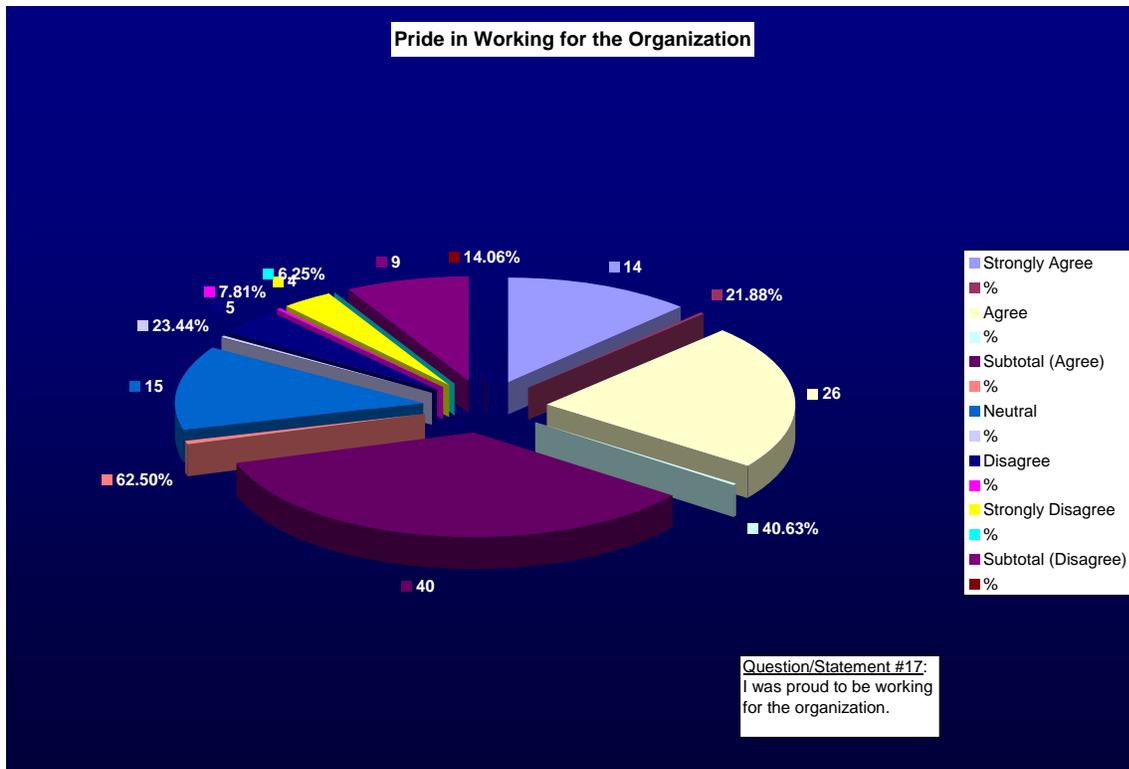
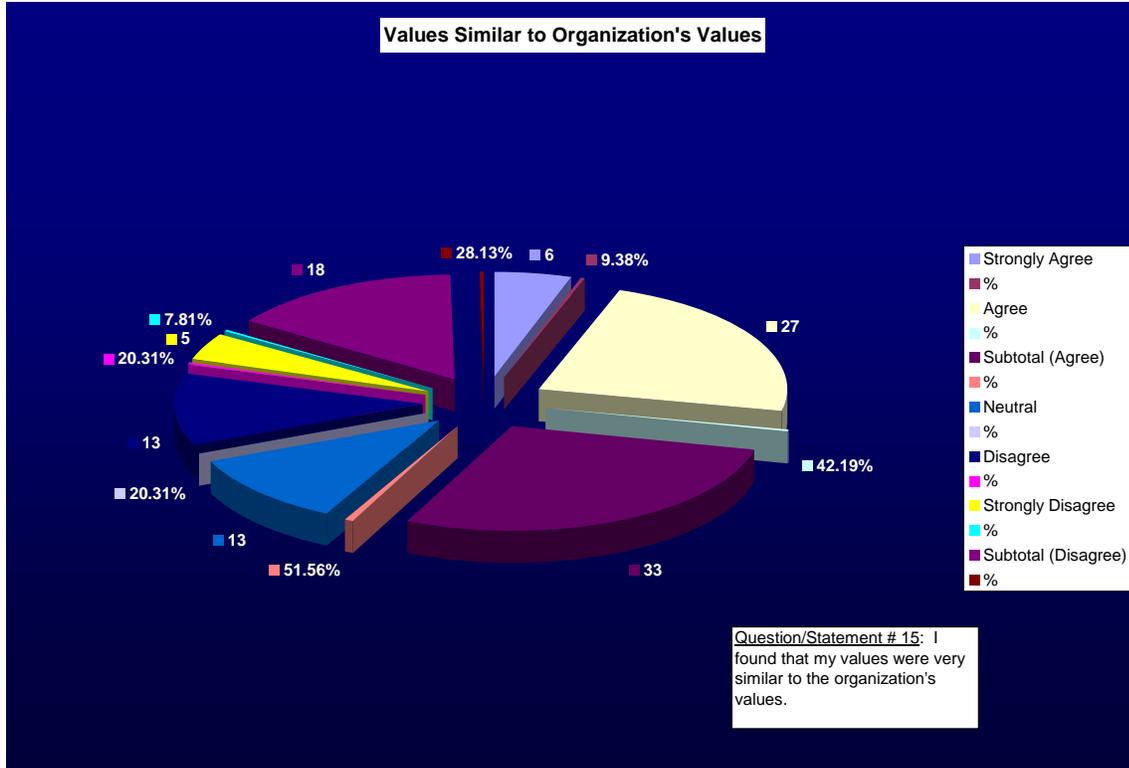


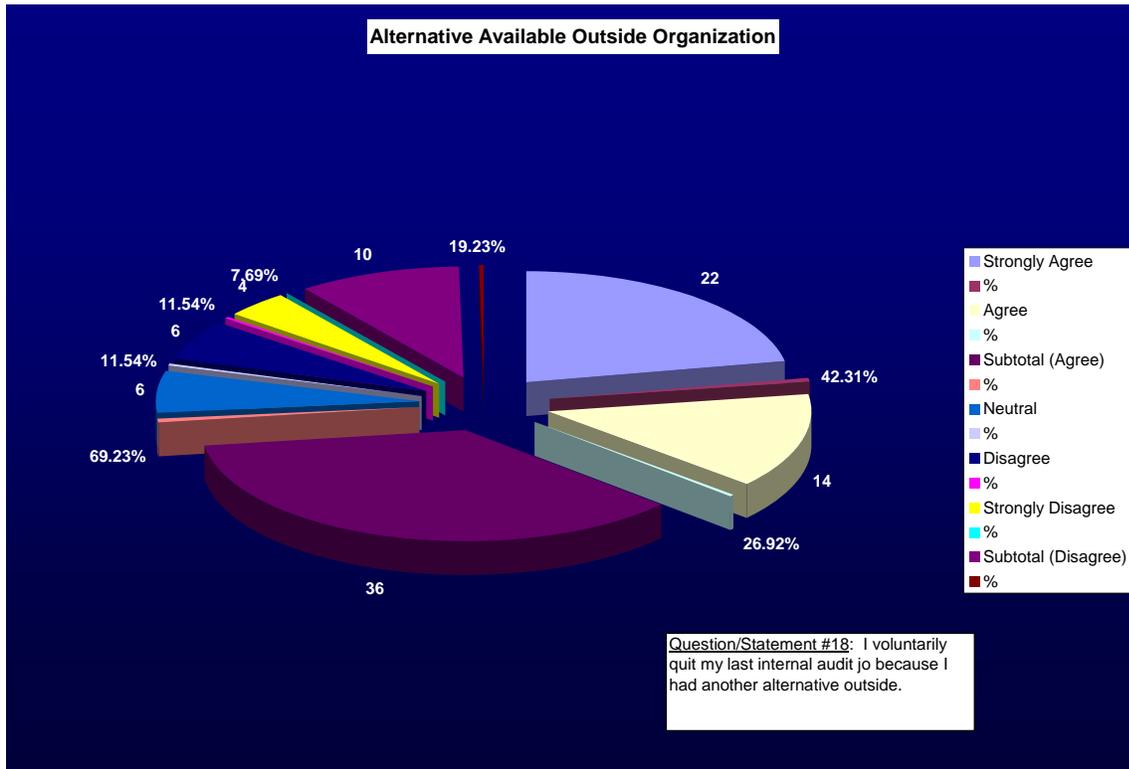
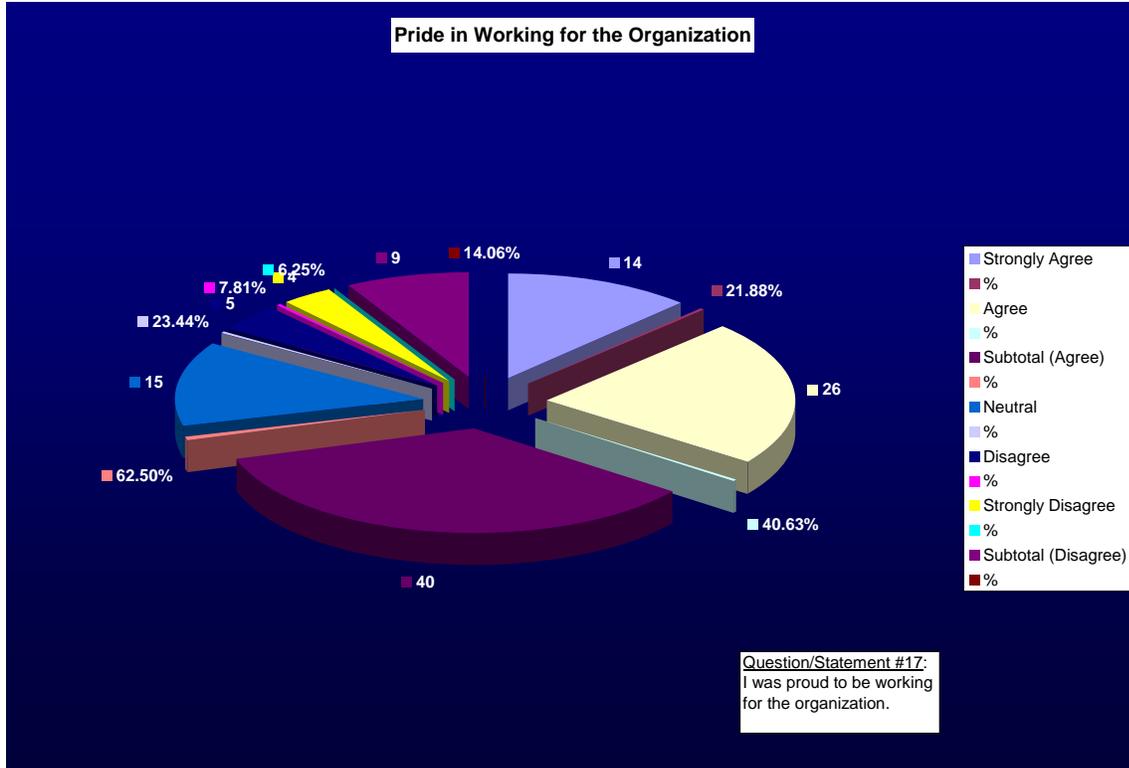


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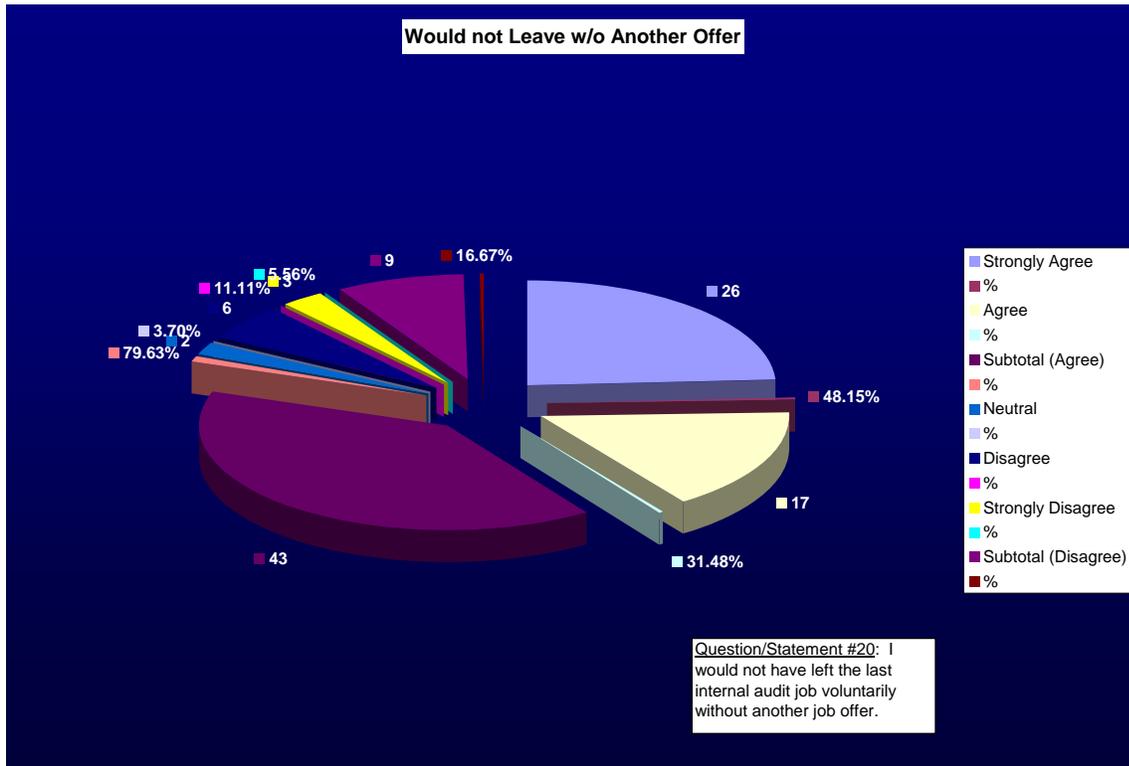
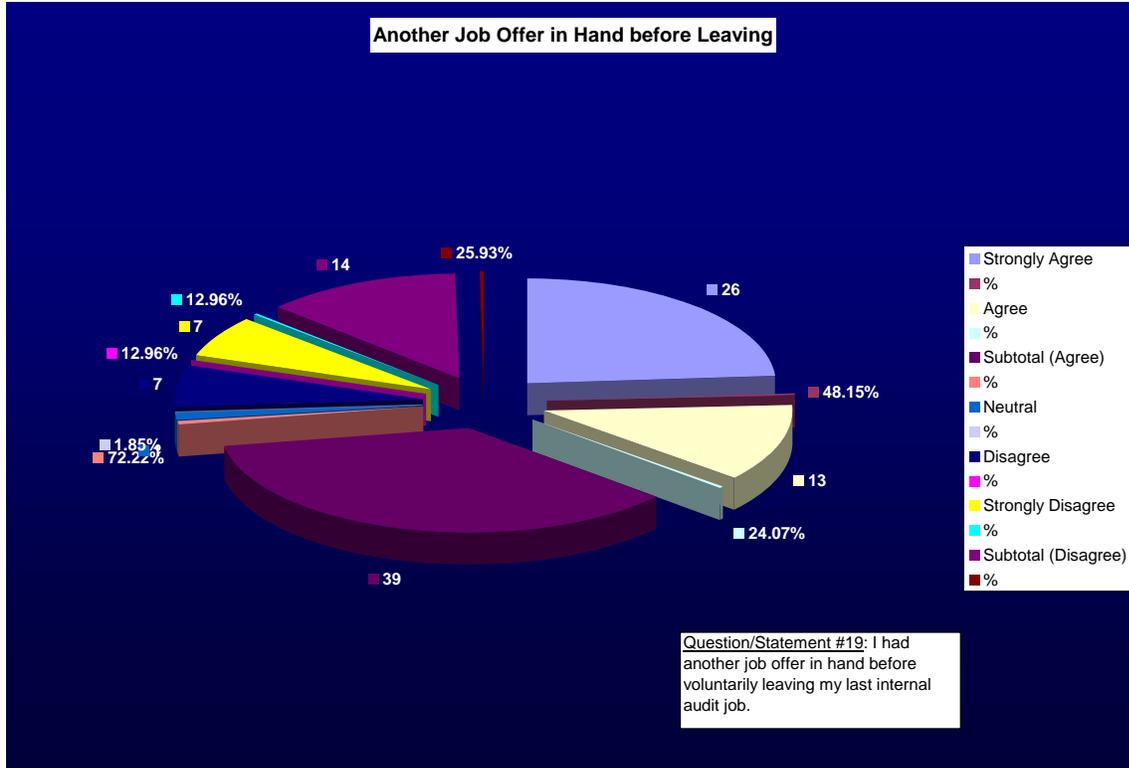


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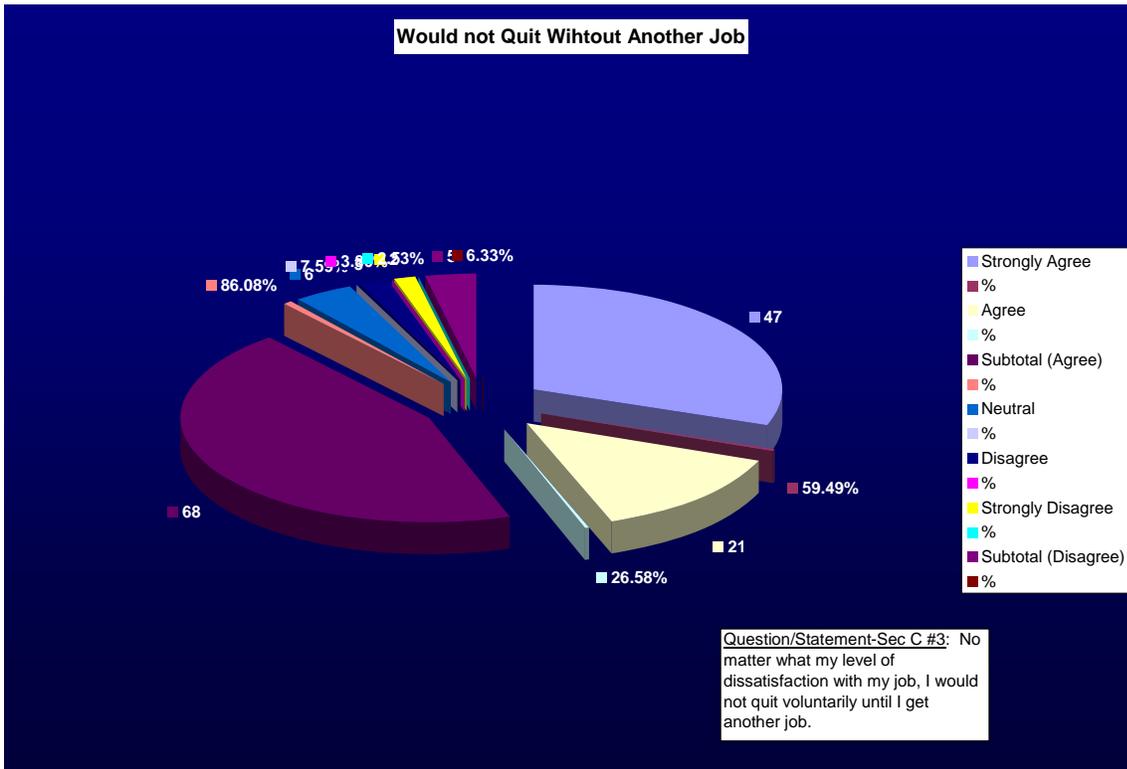
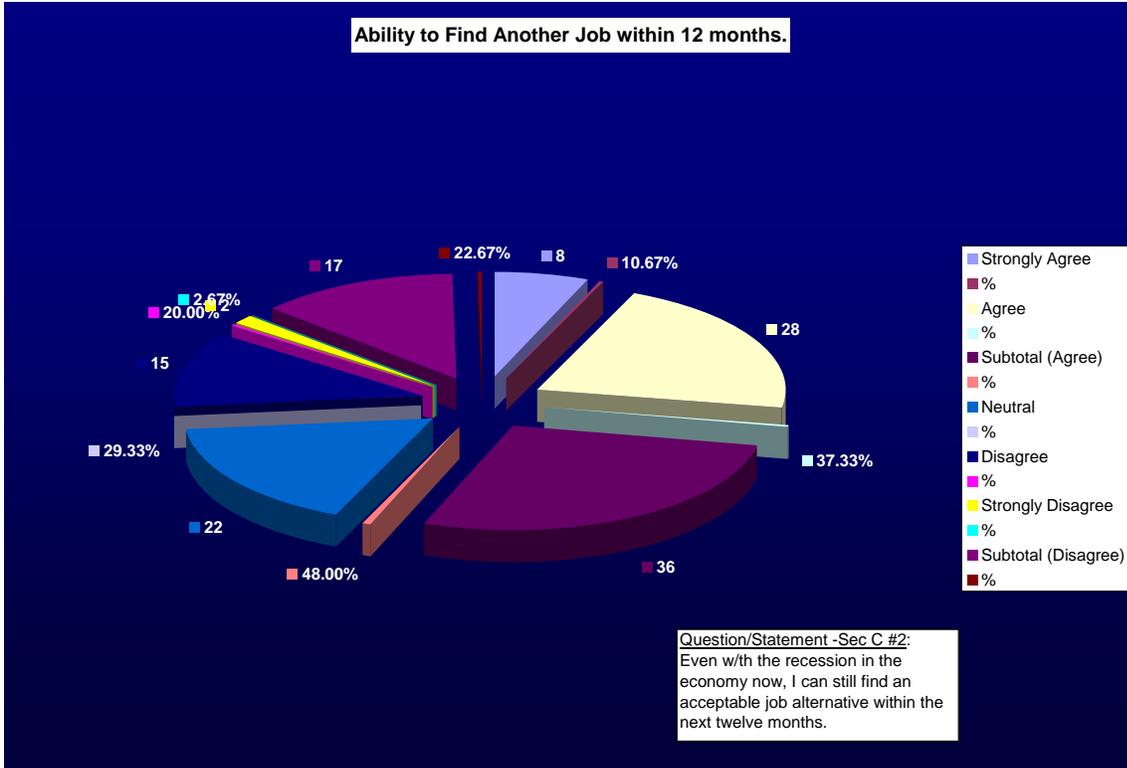




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A Study of the Voluntary External Turnover of Internal Auditors



Discussion

Ninety percent of the members of IIA surveyed agreed that SOX created more jobs for internal auditors. This indicates that the legislation, which was enacted in 2002, likely contributed to the increase in demand for auditors within the past six years. During this period it was a challenge for many companies to retain internal auditors or recruit additional internal audit staff. The purpose of this research is to unravel the reasons for the turnover and enable management to exert some control over the voluntary turnover of internal auditors.

The first hypothesis in this study is that: The level of internal auditor's job satisfaction will be negatively related to turnover. If this hypothesis is acceptable, less than 50 percent of the internal auditors should agree that they are satisfied with the job that they quit. To verify the hypothesis, six job satisfaction questions that were used and verified in an earlier research was used for this study. However, the responses were mixed as follows:

1. Sixty-three percent were satisfied with the nature of the job.
2. Only forty-four percent were satisfied with supervisor.
3. Eighty-two percent were satisfied with co-workers and peers.
4. Sixty-four percent were satisfied with the pay.
5. Only thirty-four percent were satisfied with the performance evaluation process and promotion opportunities.
6. Only forty-two percent were satisfied overall with the job they quit.

These responses bring to mind the findings in some of the past researches relating to internal auditors, included in the literature review section of this research. Quarles (1994) noted that unfairness in evaluation criteria or dissatisfaction with promotion opportunities of an internal auditor could lead him or her to have decreased organizational commitment, reduced job satisfaction, and intention to quit. This statement carries more weight because it was based on research about internal auditors' behavior rather than a general reliance on the six questions above used by Tsui et al (1992), which was a study conducted on factory workers. Locke (1973) noted that different factors cause dissatisfaction for blue collar employees compared to those that cause dissatisfaction for white collar employees.

Internal audit is a professional job with its own governing principles and rules; therefore, the nature of the job is similar from one company to the other. The co-workers and peers are usually internal auditors who also abide by the professional code of conduct of the profession, unlike factory workers who are not controlled by a professional body. The level of pay is almost standardized in the internal audit profession as evidenced by the annual survey of internal auditors' compensation conducted by reliable entities. However, based on the findings by Quarles (1994), item #5 above (evaluation and promotion) is a good measure of internal auditors' job satisfaction. Similarly, item #2 (satisfaction with supervisor) relates to item #5 closely, because supervisors usually provide the evaluations to the subordinates. Item # 6 is the overall satisfaction of the internal auditors, and their response to this item is closely related to their responses to items #2 and #5 more than their responses to any other items on the job satisfaction section of the questionnaire.

Therefore, this research will add up the responses to items #2, #5 and #6, to find their arithmetic mean which will serve as a measure of job satisfaction of internal auditors relating to the jobs they quit voluntarily. This mean is: $(44\% + 34\% + 42\%) / 3 = 40\%$.

The result of this calculation indicates that only 40 percent of the internal auditors agreed that they were satisfied with the job they left. This result indicates that the hypothesis may be acceptable.

The second hypothesis is that: the level of internal auditors' organizational commitment will be negatively related to turnover. If this hypothesis is acceptable, less than 50 percent of the internal auditors should agree that they are committed to the organization they voluntarily quit. To verify this hypothesis, six organizational commitment questions that were used and verified in an earlier research were also used in this study. The responses were as follows:

1. Eighty-four percent agreed that they were willing to work harder.
2. Fifty-five percent felt loyal to the company before they quit.
3. Only seven percent agreed to take any job to stay with the company.
4. Fifty-two percent agreed that company values were similar to theirs.
5. Sixty-three percent agreed that they were proud to work for the company.
6. Only 21 percent will turn down a job with more pay to stay with the company.

The six questions were previously used by Marsden et al (1993) to measure organizational commitment of non-professional employees. Therefore, the responses of internal auditors to items #3 and #6 above raise the issue of professional commitment versus organizational commitment. The responses to this question seems to indicate that internal auditors are very committed to their profession; therefore, they will not take just any job to stay in a company and they will not turn down a better paying internal audit job to stay with a company. This finding is consistent with the finding in prior researches (Byington and Johnson, 1991; and Williams, 2003) that internal auditors have high levels of professional commitment. If these two items (#3 and #6) are excluded from the organizational commitment measures the other four items taken together will be more consistent. The arithmetic mean of the remaining four items in aggregate is

$$(84\% + 55\% + 52\% + 63\%) / 4 = 64\%.$$

This indicates that about 64 percent of the internal auditors agreed that they were loyal to the internal audit job at the company they quit. This means that the second hypothesis may not be acceptable. This result is similar to the finding by Williams (2003), that the relationship between organizational commitment of internal auditors and their turnover intention was not significant. Kwon and Banks (2004) also found that the variables that impact the organizational and professional commitment of internal auditors differ from the variables that affect those of other professionals.

The third hypothesis is that: the availability of external opportunities will be positively related to voluntary turnover of internal auditors. If this hypothesis is acceptable, more than 50 percent of the respondents will agree that availability of alternative employment influenced their decision to quit. To verify this hypothesis, three items were included in the questionnaire to measure the impact of the availability of alternative employment. The responses to these items are as follows:

1. Sixty-nine percent agreed that they quit because they had alternative jobs.
2. Seventy-two percent agreed that they had a job offer before they quit.
3. Eighty percent agreed that they would not have left voluntarily without another job offer.

The arithmetic mean for these three items in aggregate is $(69\% + 72\% + 80\%) / 3 = 74\%$. This result indicates that the third hypothesis is acceptable. This indicates that internal auditors will likely leave more voluntarily when the demand for internal auditors is high than when the demand is low.

A Study of the Voluntary External Turnover of Internal Auditors

The next chapter includes the research conclusions, implications, limitations, and possible directions for future research relating to voluntary turnover of internal auditors.

Chapter V

CONCLUSIONS

Conclusions and Implications

Based on the results of this research we found that job satisfaction and availability of alternative opportunities significantly relates to the voluntary turnover of internal auditors. Organization commitment seems not to have as much effect on voluntary turnover of internal auditors. A higher percentage of auditors agreed that the availability of alternative jobs has more positive impact on voluntary turnover than the percentage of auditors that agreed that job satisfaction has negative effect on voluntary turnover. Therefore, availability of alternative jobs may have more impact on internal auditors' turnover than their job satisfaction. Thus, management should be paying attention to the results of the annual salary survey of internal auditors conducted by entities like IIA, to ensure that the salary of their internal auditors is at par with their counterparts in other organizations. This will reduce the tendency for their internal auditors to leave voluntarily due to availability of alternative jobs.

Currently, the demand for internal auditors may be cooling off due to the economic recession and it may be easier to retain internal auditors. The newly acknowledged economic recession will present management with a new challenge of possible staff reduction as a means of cost savings to ensure corporate survival during a financially difficult time. The staff reduction should aim at maintaining the effectiveness of the Internal Audit Department while reducing the operating cost. This goal could be achieved through functional turnover rather than dysfunctional turnover. In order to promote the incidence of functional turnover in an organization, management should ensure that the evaluation process and the promotion opportunities of high performers are acceptable to these employees; and the supervisors should maintain a good rapport with these high performers.

Current and Future expectations

The internal auditors that have not changed jobs in the last five years were also included in the sample surveyed for this study, to obtain their opinions relating to the impact of the availability of alternative jobs on their future career decisions. Their responses are as follows:

1. Only 48 percent believed they can find an acceptable job in this time of recession.
2. Eighty-six percent agreed that they will not voluntarily quit no matter their levels of dissatisfaction with a job, until they get another job.

The implication of these two responses is that the internal auditors are perceiving that the demand for their services is diminishing, due to current economic recession. Therefore, management may now be facing fewer challenges in terms of internal auditors retention compared to three to five years ago. The on-going economic recession may create a new challenge for management in terms of the need to downsize the Internal Audit Department in a reasonable fashion, by trimming the fat and maintaining the muscle of the Department.

Limitations

The sample used for this study is relatively small and local; 126 internal auditors who members of the Saint Louis Chapter of IIA. The survey was done electronically and the host website provided only the summarized result of the survey rather than the returned individual survey. Also, only descriptive statistics was used in the analysis of the data.

Directions for Future Research

Unlike the findings of Porter et al (1974), relating to a study of voluntary turnover of psychiatric hospital technicians, which state that leavers are characterized by low job satisfaction and low organizational commitment; the findings of this research are in line with those of Williams (2003), which noted that the impact of organizational commitment on internal auditors is different from that of other employees. This research also concurs with Kwon and Banks (2004) that the variables which impact the organizational commitment of internal auditors differ from the variables that affect other employees. Therefore, the IIA should intensify its efforts to encourage research relating to internal auditors by both audit professionals and academicians to promote optimal management and proper functioning of Internal Audit Departments.

Future research relating to voluntary turnover of internal auditors may compare the levels of job satisfaction and organizational commitment of leavers versus those of stayers. This research may be replicated nationally by surveying the population of IIA members all over USA, to find out if the results of this local study differ from those of the national study. The results of this local study could be subjected to more rigorous and advanced statistical tools to verify whether the same conclusions will be supported.

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IIA STL Research Committee Survey 2008-2009

This questionnaire is designed to aid the Research Committee of the St. Louis Chapter of the Institute of Internal Auditors in preparing both a research study and a doctoral dissertation for Webster University in St. Louis.

Please complete each question in the following questionnaire.

This survey tool requires a response to each question before it allows you to move to the next page of questions. For any answers of Strongly Disagree or Disagree, please explain why in the Comments space. If you like, you may also add any general comments. The St. Louis Chapter of the Institute of Internal Auditors also encourages you to contact Julia Disner, Research Committee Chairperson for 2008-2009, directly to answer any questions you may have or to share your comments or concerns.

You can use the "back" button on your internet browser to return to previous pages.

Thank you for your time and participation in this important survey.

Sincerely,

**Julia Disner, CIA, CFSA
Professional - Internal Audit & Controls
Jefferson Wells - Heartland Office (St. Louis/Kansas City)
julia.disner@jeffersonwells.com
(314) 659-4000 (office/voice mail)
(314) 651-2454 (cell)**

**Institute of Internal Auditors - St. Louis Chapter
Research Committee Chair 2008-2009**

Section A – General Questions

Note: Responses to this survey will be confidential. Only the aggregate results of the survey will be posted on the IIA St. Louis Chapter's website in the summer of 2009.

Please answer the following general questions about your experience (select appropriate box):

1. How many years have you been working in Internal Auditing?

If you have changed job(s) in the last 5 years, please complete sections A & B.
If you have not changed job(s) in the last 5 years, please complete sections A & C.

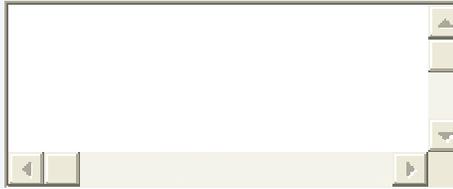
<input type="checkbox"/>	1-3
<input type="checkbox"/>	4-6
<input type="checkbox"/>	7-10
<input type="checkbox"/>	11-15
<input type="checkbox"/>	Over 15
<input type="checkbox"/>	Other (please specify) <input type="text"/>

Comments:

2. What is your title at work?

<input type="checkbox"/>	Audit Staff
<input type="checkbox"/>	Audit Senior
<input type="checkbox"/>	Audit Supervisor
<input type="checkbox"/>	Manager
<input type="checkbox"/>	Director
<input type="checkbox"/>	Other (please specify) <input type="text"/>

Comments:

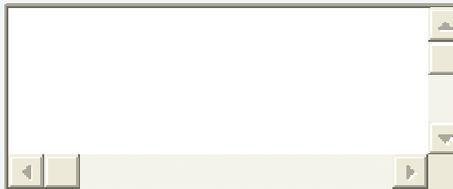


3. What are your educational and professional qualifications?

If multiple answers apply, please select your highest level of education and add all other additional educational and professional qualifications in the comments section below:

- Bachelors
- Masters
- CIA
- CPA
- Other (specify in comments)

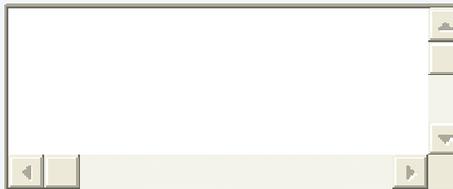
Comments:



4. What is the size of your Internal Audit Department staff?

- 1-5
- 6-10
- 11 –20
- 21 – 50
- Over 50

Comments:



5. The Sarbanes Oxley Act of 2002 (SOX) created more jobs for Internal Auditors.

<input type="radio"/>	Strongly Agree
<input type="radio"/>	Agree
<input type="radio"/>	Neutral
<input type="radio"/>	Disagree
<input type="radio"/>	Strongly Disagree

Comments:



Section B – Questions for Internal Auditors who changed job(s) in the last 5 years.

Please answer questions 1-20 below using information about the last Internal Audit job which you quit voluntarily.

Note: In order to complete this survey, you must enter N/A in the comments section (if instructed), or select N/A as your response should this section not apply to you because you have not changed jobs in the past 5 years.

1. The three main reasons I voluntarily quit my last internal audit job are:

Please list reasons in comments section below in order of importance to your decision: 1) 2) 3). Please add N/A to the comments section if this question does not apply to you.

Comments:



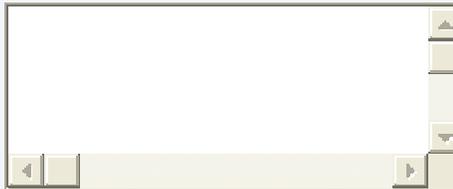
2. Most of the positive experiences which led to my satisfaction in the last internal audit job I left was due to my personal effort and ability.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

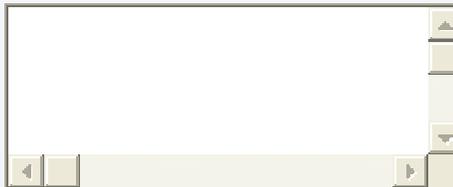


3. Most of the positive experiences which led to my satisfaction in the last internal audit job I left was due to the stable work environment, including coworkers and supervisor.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5= Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

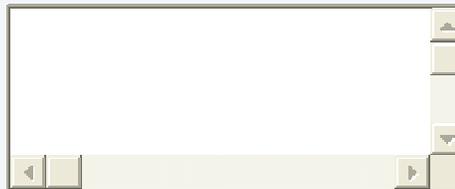


4. Most of the negative experiences which led to my dissatisfaction in the last internal audit job that I left was due to my personal characteristics, which I could not change.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



5. Most of the negative experiences which led to dissatisfaction in the last internal audit job that I quit was due to the work environment beyond my control.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



6. I was satisfied with the nature of the last job that I quit.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



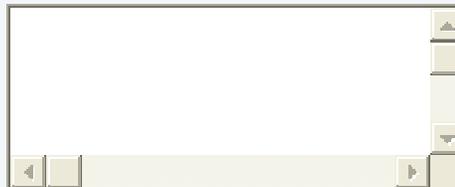
7. I was satisfied with my supervisor in the last job I quit.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



8. I was satisfied with my relations with co-workers and

peers before I quit.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



9. I was satisfied with the pay that I received at the last job that I quit.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

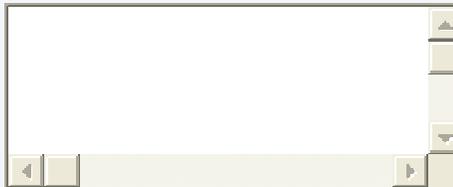


10. I was satisfied with the performance evaluation process and promotion opportunities.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

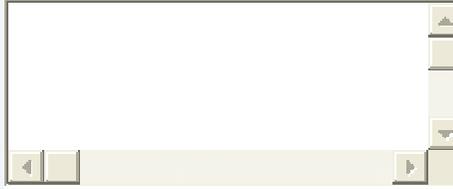


11. Overall, I was satisfied with the last job that I voluntarily quit.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

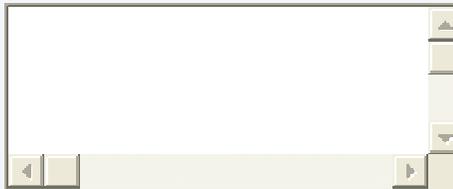


12. I was willing to work harder than usual to help the Organization.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

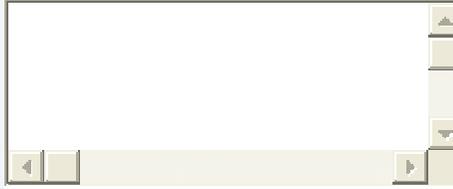


13. I felt very strong loyalty to the organization I quit.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree
- N/A

Comments:



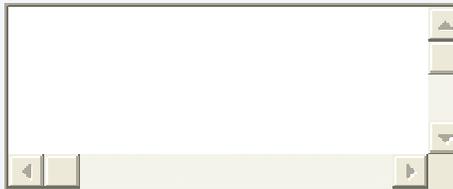
14. I would have taken almost any job to keep working for the organization.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



15. I found that my values were very similar to the organization's values.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

16. I was proud to be working for the organization.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

17. I would have turned down another job for more pay in order to stay with the organization.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

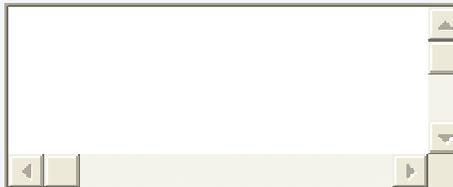


18. I voluntarily quit my last internal audit job because I had another alternative outside.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:

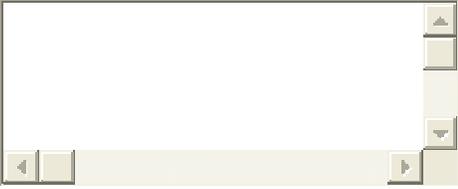


19. I had another job offer in hand before voluntarily leaving my last internal audit job.

(Check the Appropriate Box 1-5)
[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



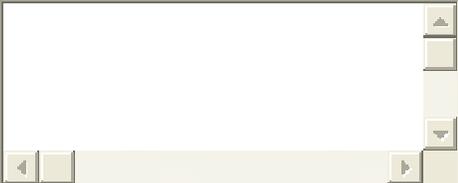
20. I would not have left the last internal audit job voluntarily without another job offer.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



21. If you left an Audit Position due to involuntary turnover, such as layoff, etc. and would like to include your comments on the reasons for leaving that position(s), please include them in the comments section below.

Select one of the following:

Note: Response not required to this question.

- 5 = Yes
- 4 = No

Other (specify below)

N/A

[Enter Comments here:](#)

Section C – For internal auditors who remained with the same company for the last five years.

Note: In order to complete the entire survey, you must enter N/A in the comments section (if instructed), or select N/A as your response should this section not apply to you because you have changed jobs in the past 5 years.

1. The three main reasons why I stayed in my job for the last five years are: a) b) c) _____.

Please list your responses in order of importance to your decision in the comments box, or enter N/A in the comments section if the question does not apply to you.

Comments:

2. Even with the recession in the economy now, I can still find an acceptable job alternative within the next twelve

months.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree
- N/A

Comments:



3. No matter my level of dissatisfaction with my job, I would not quit voluntarily until I get another job.

(Check the Appropriate Box 1-5)

[5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree]

- 5 = Strongly Agree
- 4 = Agree
- 3 = Neutral
- 2 = Disagree
- 1 = Strongly Disagree
- N/A

Comments:



The IIA - St. Louis Chapter's Research Committee Thanks You!

**Thank you for taking the time to complete this survey. Your
input is greatly appreciated.**

**Julia Disner, CIA, CFSA
Jefferson Wells International
Professional - Internal Audit & Controls**

**Labi Tihamiyu, CPA
Metro St. Louis
Internal Auditor**

[Click here](#) to view or download the summary results.