

**Research Article**

## **THE EFFECT OF KNOWLEDGE MANAGEMENT ON PERFORMANCE OF AUDIT INSTITUTIONS**

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### **ABSTRACT**

At the time of communications, organizations require an integrated mechanism for organizing data, information and knowledge. Nowadays, having related, classified, and on-time information can help organizations. Knowledge has become like an intangible goods exchanged by organizations and social researchers. Auditors play a vital role in financial reporting processes through crediting forms' financial statements. Although audit standards have not signified certain responsibilities clearly for auditors in detecting plausible frauds of management and falsifying financial statements, SAS obliges auditors to design and implement certain tests for detecting those errors of violations that have high importance on financial statement. It has been tried during this study to examine the effect of knowledge management on performance of audit institutions. Population of study consists of audit institutions. Also the questionnaire was distributed through accessible sampling. Structural equations modeling approach and Lisrel software were applied for analyzing data. Obtained results from testing first hypothesis indicated that at confidence level of 95%, organizational culture among dimensions of knowledge management has a significant effect on performance of audit institutions. According to achieved results from testing second hypothesis, the other dimension of knowledge management, information technology is effective on performance of audit institutions.

**Keywords:** *Knowledge Management, Organizational Culture, Information Technology (IT), Performance of Audit Institutions*

### **INTRODUCTION**

Due to increase of complicity within environment and high volume of information requires organizational regulations different from past times. In current competitive world, whose most obvious characteristic is speed of environmental changes. Without doubt, sole relying on physical and overt properties cannot lead organizations to the end. In fact, if organizations are going to keep their current status or improve themselves, they need to overestimate their intellectual capitals (Sharifzadeh and Boudelae, 2008).

Knowledge management is a modern attempt of the century of knowledge, for keeping, leading, and meaningful increase of organizations' knowledge capitals, which points out that investment in science would bring about the best and the highest profit (Adli, 2008). In order to apply knowledge management in the best way, it is needed a cooperation between technology, culture, and organizational structure, because there are unique technology, culture and organizational structure for any organization. In today's global market, along with intensifying competition, the speed of changes and shortening product's cycle life, and growth of complicity in relations with suppliers, customers, and employees, organizations found out that for survival, it is needed to change their business methods.

#### **Theoretical Considerations**

At the eve of 21<sup>st</sup> century, knowledge and technology play a vital role in developing communities and the world is going towards the age of knowledge-orientation. Stable development is based on knowledge, and development of technology, it is obvious that those communities allocating more resources and equipment to the subject of research, can produce more and better knowledge and would have more successful performance in other areas including policy making, planning, decision making, and other

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activities (Sharifzadhe and Boudelae, 2008). Recent progresses in IT have reduced the expenditures of data management significantly. These progresses have introduced the concepts learning organization, knowledge organizations, and knowledge management into the area of management and organization literature. By applying strategies of knowledge management, innovation in processes, activities, products, and services would be provided and subsequently, they would improve their competitive status. In today's dynamic, challenging, and competitive world of business, the move of organizations towards learning organizations is considered from success necessities within such environments. In addition, they should be able to distribute required knowledge for innovation in their products and improving their processes. It is through just this way that they would be able to answer competitive environmental necessities and extremely various needs of customers (Alvani *et al.*, 2007). On the other hand, decision about approving and maintaining employer in audit institutions is made based on two professional and commercial logics. Professional logic concentrates on supporting the public and public legitimacy and commercial logic is based on achieving income. Institutions should value both logics appropriately. Under both logics, auditors should apply enough knowledge in and experience. In professional logic, institutions should have adequate and update knowledge for professional logic in supporting the public and offering public services and also they need to update knowledge for commercial logic for answering their needs and attracting their attention. Therefore, in accounting and auditing, all of professional employees including partners and assistants need participating in continuous internal and external trainings. Continuous professional training plays an important role in developing human resource. The aim of professional training is to develop employees efficiently and maintaining employees' interest in organizational purposes. A vital point for competitive advantage of a corporate is to correct employee appropriately with operational policies. When the situations of operation change fast, commercial corporate should increase its employees' experience and skill for paving severe environmental changes. Therefore investment in professional training is quickly growing. According to the way of training, it is based on two parts. On-the-job training and off-the-job training. On-the job training is done at workplace during work hours for every employees, but off-the job training is done out of workplace and it may be done during working hours or after it. Continuous training is an area for action and study conducted towards training needs of professional individuals. Auditors can acquire organizational culture and IT during continuous training of audit institutions. In accounting and auditing, to apply IT and organizational culture would improve auditors' experience and qualifications and increase quality of auditing, which subsequently improves performance of institutions.

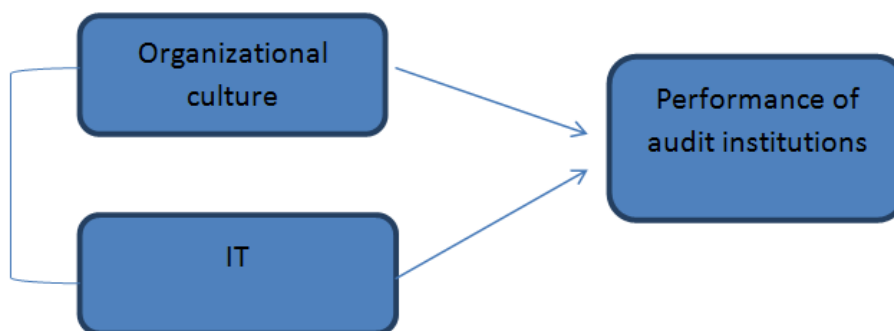
### **Literature Review**

Bebensi *et al.*, (2011) indicate that factor applied plans would be done for empowering and supporting knowledge management within organizations. By applying two case studies in two student-based organizations interested in using technology, they showed how to classify web programs. Somenok *et al.*, (2010) examined indicators for determining knowledge management capabilities for efficiency of knowledge management. They discuss on IT that "any organizations should have an appropriate IT system to obtain new knowledge any time anywhere by individuals. IT should be is such a way that knowledge resources required by individuals can be gathered. Also, the importance of culture in the organization is explained by them as, "staff understand the importance of knowledge contributing to organizational achievement. Moreover, they are informed about organizational views and purposes and they are eager to acquire knowledge continuously through repeating and practicing skills in both inside and outside of organization.

Hassan (2014) examines the role of knowledge management in organizational innovation. Organizational innovation would not be appeared without cooperative knowledge management, and due to the nature of knowledge management, it has gained more importance. Fadaee *et al.*, (2011) examines the concept the system of knowledge management. The s results indicate that success factors of knowledge management system including advantages of applying it, and elements of knowledge management system, tools and technologies of knowledge management system and approaches towards knowledge management are prioritizes with order of these indicators.

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### Conceptual model and research hypotheses



Hypothesis.1: Organizational culture among dimensions of knowledge management has a significant effect on performance of audit institutions.

Hypothesis.2: IT among dimensions of knowledge management has a significant effect on performance of audit institutions.

## MATERIALS AND METHODS

### Methodology

Present study is an applied research in terms of nature and it is regarded as a descriptive survey in terms of data collecting way for testing hypotheses. Therefore, it can be said that present study is an applied descriptive correlative research. In order to collect required data for testing research hypotheses, questionnaire was applied containing items about organizational culture and IT and also items on performance of audit institutions designed based on research hypotheses. Questions include two parts, one part about general items (sex, educations, age, and occupation) and other part about expertized questions. Population of study consists of employees working in audit institutions including senior auditors, assistant auditors, and supervisors. Expertized questions are related to variables of IT, organizational culture, and performance of audit institutions.

**Table 1: Indicators explaining research variables**

Performance of audit institutions	IT	Organizational culture	Indicators
2/8363	2/8352	2/8956	Mean
2/8571	3/0000	2/9286	Median
2/57	3/00	2/86	Mode
0/50847	0/51476	0/55193	SD
0/259	0/265	0/305	Variance
-0/442	-0/850	-0/418	Skewness
0/212	0/212	0/212	Standard error of the coefficient of Skewness
1/110	1/564	0/644	Elongation
0/422	0/422	0/422	Standard error of the coefficient of elongation
1/14	1/00	1/00	Lowest
4/43	4/14	4/14	Highest

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Required data for present study was collected from a questionnaire, whose validity was tested. Researcher applied a questionnaire containing 21 questions in 5-point Likert's scale for collecting data. During present study, after drawing analytical model of research based on data by path diagram and by installing Perlis program from Lisrel software, the model was estimated, in which by using B coefficients and using t tests, hypotheses was tested. Moreover, fit indicators of model were evaluated automatically by implementing Perlis program for considered model.

This diagram contains indicators for describing research variables. The first line shows the number of data, second line attributed to data average, which in the case of ordering data on an axis, it is located exactly on an interactive point with distribution center. Third line is data median. Median indicates that 50% of data is smaller than middle number and 50% of data is greater than middle number. Closeness of mean and median indicates data asymmetry. Mode shows data with the highest frequency.

SD and variance show data scattering. Skewness explains lack of asymmetry of distribution towards a certain indicator. Also, proportion of Skewness coefficient towards SD is called standard error of skewness coefficient, which can be regarded as normality of test. If this value is smaller than -2 or greater than +2, the hypothesis of normality is rejected. Finally, indicator for measuring population scattering towards normal distribution is called elongation coefficient, which proportion of elongation coefficient towards standard error is called standard error of elongation coefficient. Two last lines are attributed to the highest and the lowest observations of data.

Evaluation of model and examining fit of model

**Table 2: Fit indices of research model**

Fit index	Macro	Standard values	Estimated values
Freedom degree	Degrees of Freedom	-----	186
Chi-square	Chi-Square	Due to dependency on sample size, it is not regarded as an appropriate indicator	225/18
Chi-square/freedom degree		Smaller than 3	1/21
The root mean square error of the estimate	RMSEA	05/0	054/0
Normalized fit index	NFI	90/0	84/0
Non-normalized fit index	NNFI	90/0	94/0
Comparative or AdaptiveFit index	CFI	90/0	94/0
The root mean square residual	RMR	05/0	058/0
Goodness of fit	GFI	90/0	84/0
Adjusted Goodness of fit	AGFI	90/0	80/0

As observed in the table above, indices for compliance and goodness of fit are located at a relatively acceptable level. Two diagrams below indicate general models of Lisrel software output, which at the same time include structural model and measurement model, which are described in details.

Diagram 1 shows t values for structural and measurement model.

Diagram 2 shows factor load values for structural and measurement model.

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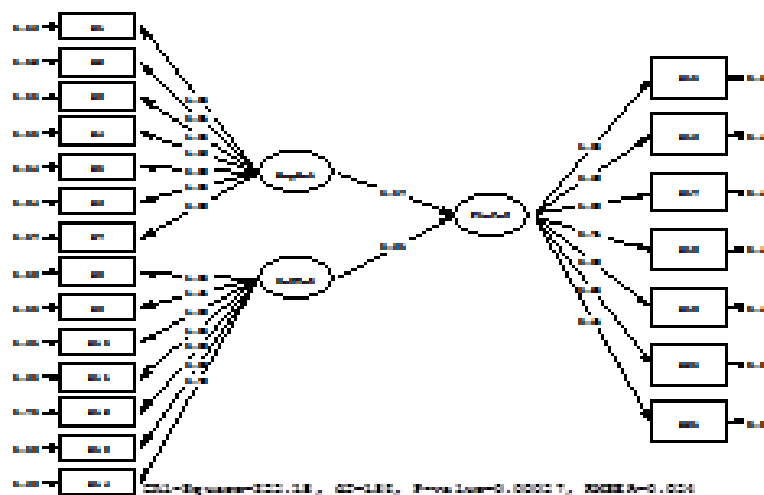


Diagram 1: Basic model with t values

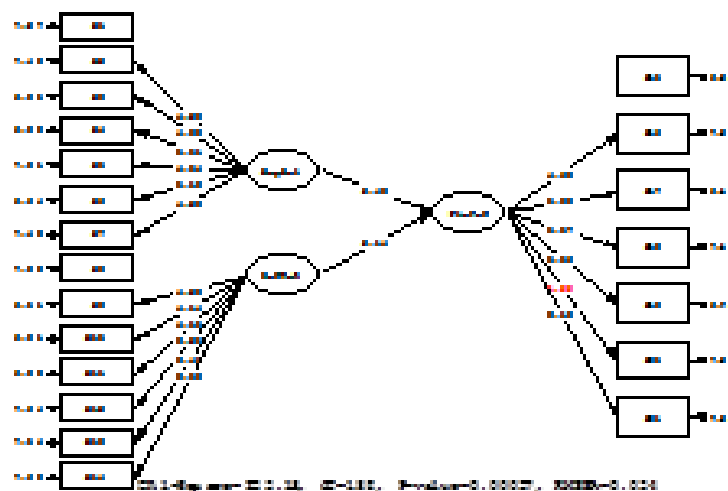


Diagram 2: Basic model with path coefficient

## RESULTS AND DISCUSSION

### Findings

Testing first hypothesis

Hypothesis.1

H0: organizational culture among dimensions of knowledge management has no significant effect on performance of audit institutions.

H1: organizational culture among dimensions of knowledge management has a significant effect on performance of audit institutions.

Table 3: Results of standard coefficient and statistic t

Statistic t	Estimated coefficient	Predictable variable	Predicting variable
2.48	0.57	Performance of audit institutions	Organizational culture

Respecting table 3, the value of path coefficient between organizational culture and performance of audit institutions is 0.57 and related t value of  $2.48 > 1.96$ , which according to t test with critical value of 0.05 at confidence level of 95%, null hypothesis would be rejected, then first claim of researcher is approved

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and by confidence level of 955 it can be said that organizational culture among dimensions of knowledge management has a significant effect on performance of audit institutions.

Testing hypothesis 2

Hypothesis.2: It among dimensions of knowledge management has a significant effect on performance of audit institutions.

H0: IT among dimensions of knowledge management has no significant effect on performance of audit institutions.

H1: IT among dimensions of knowledge management has a significant effect on performance of audit institutions.

**Table 4: Results of standard coefficients and statistic t**

Statistic t	Estimated coefficient	Predictable variable	Predicting variable
2.14	0.61	Performance of audit institutions	IT

Respecting table 4, the value of path coefficient between ITand performance of audit institutions is 0.61 and related t value of  $2.14 > 1.96$ , which according to t test with critical value of 0.05 at confidence level of 95%, null hypothesis would be rejected, then second claim of researcher is approved and by confidence level of 955 it can be said that IT among dimensions of knowledge management has a significant effect on performance of audit institutions.

### *Evaluating and Explaining Results Obtained from Testing Hypotheses*

Respecting previous studies during spring and summer of 2013 and obtained findings from research, results show that the value of path coefficient between organizational culture and performance of audit institutions is significant.

Therefore, results of conducted tests lead to confirming first hypothesis. It means that there is a relationship between organizational culture and performance of audit institutions. It seems that since knowledge management is a suitable alternative for management system, some of professional organizations identify the relation between knowledge management with other professional levels for better implementation of activities, performance levels, risk management, and change management. Also, obtained results indicated that the value of path coefficient between IT and performance of audit institutions is significant, therefore the result of conducted tests led to confirming first hypothesis. It means that there is a relationship between IT and performance of audit institutions.

## Conclusion

Knowledge management can be regarded as one of important activities for efficiency of companies. On the other hand, since failure rate of knowledge management projects is significant, identifying major elements of success can contribute businesses in assessment, planning, implementing, and enforcing knowledge management to reduce the probability of failure for knowledge management projects. The main importance and application of major factors of knowledge management success is that by identifying and monitoring these factors, organizations can be sure about successful implementation of knowledge management. Managing and making knowledge as leverage can lead any organization towards adaptability, innovation, and more smartness. Therefore, knowledge management has become an important strategy for improving organizational performance. Performance management should lead to promoting organizational capabilities by supporting organizational culture and IT. Since, during present study, the effect of organizational culture and IT on performance of audit institutions was proved in hypothesis1 and 2, it is suggested that most of organizations, especially audit institutions apply these dimensions during their lifetime. Because knowledge management is a systematic process of searching, selecting, organizing, refining, and showing information, it may be applied in such a way that employees' understanding of audit institutions is corrected and improved in a certain area and organization may obtain better view and understanding of its experiences. Processes of knowledge management contribute in solving problems, dynamic learning, strategic planning, decision making, and protecting intellectual property form burnout and may result in increasing flexibility and increasing organizational intellect.

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