Sarbanes-Oxley: How do perceptions of this legislation vary across organizational levels?

By

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Abstract

When the Sarbanes-Oxley (SOX) legislation was passed in 2002, it was uncertain how companies would react to the new requirements. More specifically, many people wondered what the impact would be from Section 404 of the Act and its requirement that companies document, maintain, and test their own internal controls. Recent studies focus on the value of SOX as perceived by executives and directors. There are also other, non-related studies which focus on how employees view executives and managers. The context for this strand of research is that employees will perceive leadership differently based on a variety of factors. This study will combine these two points and fill in current gaps in the literature by investigating the difference in employee perceptions of SOX across different ranks in an organization. It will also analyze how these perceptions change due to the amount of time spent by each employee on SOX activities. For this study, I have interviewed 16 employees from three different organizational levels from a large, private Midwestern firm. A qualitative analysis of the results is conducted in order to examine the differences in perception based on hierarchical rank and time spent on SOX and its related activities. The results support a higher perceived net benefit of SOX from employees at higher hierarchical levels within the selected organization.

Key words: Sarbanes-Oxley (SOX), internal controls, employee perceptions

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1. Introduction

Due to the accounting scandals of the early 2000s, Congress decided change was necessary. In 2002, Congress established the Sarbanes-Oxley Act (SOX) in order to hold companies accountable for their accounting policies. Many argue that in the aftermath of the Enron and WorldCom scandals, something had to be done to help restore faith in U.S. companies and their financial statements (Swartz, 2005). Included in SOX was Section 404 which requires, among other things, companies to document and test their own internal controls. Those against SOX argue that companies should be able to make these decisions independent from Congress. Many also feel that SOX has weakened America’s stock markets by incentivizing U.S. public firms to go private and by dissuading foreign firms to list their shares on U.S. markets (“Five”, 2007).

Regardless of whether or not Congress had or still has a legal basis for SOX, it is clear that costs have been significant for complying companies. According to a study conducted in 2009 by the Securities and Exchange Commission (SEC), the average public company pays more than $2 million per year complying with SOX’s Section 404 (“No-Cost”, 2010). However, SOX proponents cite benefits such as process standardization, reduction of inconsistent data, and an improvement in reliability and transparency of information.

In order to ascertain the net benefit of SOX and its testing, CFOs and Financial Directors have been interviewed in numerous studies. In these studies, it is common practice to use these opinions to provide an evaluation of the perceived net value of SOX and its testing. However, empirical evidence shows that most of the testing and tedious activities associated with SOX are conducted at lower levels within organizations. It is essential that these voices be included in determining the actual value of this legislation. The following study focuses on the assessment of
SOX’s net benefit to an organization based on opinions from employees from various levels within a single organization.

This paper can potentially fill this information gap and provide evidence regarding a variance of perceptions of SOX across an entire organization. Finance leaders may find this study especially useful by discovering how SOX is perceived across an entire organization and identifying areas where employees may need more motivation to perform their current SOX-related tasks. This study also complements the existing literature that investigates change in employee perceptions of leadership across rank, as SOX is a specific example of work that is delegated by leadership to others within an organization.

The rest of the thesis is arranged as follows. Section 2 contains a review of two strands of literature related to the main research question. The first group of literature investigates the effect of SOX on the behavior of executives and directors. The second group analyzes the change in employee perceptions of leadership due to the employee’s rank within an organization. Section 3 describes the methodology for collecting the data, which consisted of interviewing 16 employees at a single firm. Section 4 displays and analyzes the results of the interviews and Section 5 provides a discussion of future research opportunities as well as greater implications of the current study.

2. Literature Review

There are many published studies regarding the effect of Sarbanes-Oxley (SOX) and its impact on organizations. The following section first describes the existing research on the effect of SOX on executives and directors followed by a review of the existing literature that investigates how employee perceptions of leadership and its activities vary based on rank.
2.1 Effect on behavior of executives and directors

It has been shown that as a result of SOX, the level of monitoring has increased in terms of financial reporting and internal controls. The intense level of monitoring has affected the actions of boards of directors and executives. One study shows that board directors are much more likely to show up to board meetings post-SOX due to more attention to them (Jiraporn, Davidson, DaDalt, & Ning, 2009). In order to observe this effect, the authors of this study obtained a sample from the Investor Responsibility Research Center (IRCC) available through the Wharton Research Data Service (Jiraporn, et al., 2009). A statistic on the database states when a director failed to attend at least 75% of all board and committee meetings. The authors classified this statistic as an “absence”. The authors investigated the difference in attendance before and after the implementation of SOX. They found that the frequency of absences decreased post-SOX (Jiraporn, et al., 2009). The possible explanation given is that SOX has raised awareness in corporate governance and motivated directors to act more responsibly.

There is also evidence that SOX has affected actions taken by CEOs. One particular study investigated the effect of SOX on CEO turnover (Wang, Davidson & Wang, 2010). CEO turnover has increased after SOX was passed due to the changes brought to corporate boards and the aforementioned operating environment that has become much more scrutinized and controlled (Wang et. al, 2010). The authors of this study analyzed a sample of 670 CEO’s from 1999 to 2005 in the Execucomp database to equally capture pre-SOX and post-SOX periods. In addition to turnover, the study also analyzed CEO tenure. Although it could not be proven that SOX directly affected CEO tenure, it was noted that SOX has increased monitoring from all perspectives: the board, the institutional owners, and the financial press (Wang et al., 2010). This
added pressure could shorten CEO tenure by adding stress or threatening to reveal something that could lead to their future termination.

These findings show that CEO’s and board members are feeling increased pressure as a result of SOX. The question that remains, however, is whether or not this pressure or increased level of monitoring permeates throughout the entire organization and whether or not it affects employees of different ranks to the same degree.

While SOX may help a company maintain more accurate financial statements (Singer & You, 2011), it can also affect the way executives perceive leadership and potential reward or punishment. One related study investigated the influence SOX has on the fraudulent financial reporting behavior of individual employees (Ugrin & Odom, 2010). The authors of this study ran an experiment in which participants were given a scenario that contained a financial reporting situation that involved knowingly reporting a supplies expense incorrectly in order to receive a bonus at the end of the year. The jail times and strength of internal controls were varied across participants in order to test their effects on the participants’ actions. One of the central findings is that the perceptions and beliefs of each employee played an integral role in understanding the effects of internal controls (Ugrin & Odom, 2010). This is essential because it shows that, in an experiment with numerous variables, it was the internal controls that were most influential on the majority of the subjects. What still remains to be investigated is how these internal controls (and in this case, the burden of SOX testing for internal controls) are perceived by employees of different ranks. While it is likely that an executive would understand how internal controls provide benefit to the organization and themselves, it is still unknown as to how this would affect an employee who may not possess this high-level knowledge.
2.2 Change in perceptions due to employee rank

It is also important to recognize that employee rank has shown to be related to perceptions in other contexts, namely perceptions of leadership. In particular, Gabris and Ihrke (2007) studied the response to a survey sent to a random sample of 1,182 district conservationists who work for the US Department of Agriculture’s Natural Resource Conservation Service (NRCS). The survey contained questions asking the employees to rate their level of trust and other relationship-related items regarding employees from all three levels within the NRCS. The response rate for this survey was an impressive 91.8%, which increases the reliability of the results. One central finding is that employees are more familiar with their direct supervisors than with their senior managers and thus have stronger perceptions of their direct supervisor’s leadership credibility (Gabris & Ihrke, 2007). In contrast, many employees see their senior managers as “distant and aloof.” The authors conclude that hierarchy is still an integral part of many organizations and remains a “powerful organizing force” (Gabris & Ihrke, 2007: p.120).

Given that SOX is usually implemented using a top-down approach, employees at lower levels within an organization may in turn view SOX activities as “distant” from their own goals, which raises the issue that perceptions of SOX likely vary across the organizational hierarchy. In particular, instead of seeing the benefits of SOX, lower ranked employees may solely view SOX as an additional cost to them. Therefore, executives’ perceptions of SOX may not accurately reflect those of the entire organization.

Another study was conducted in which the relationship between perceived leadership behavior and employee confidence in the leader was tested and analyzed (Jones, James, & Bruni, 1975). The authors asked 25 questions to each of 123 civil service and military employees in the U.S. Army Corp of Engineers District Office. Correlations between confidence and trust and the
perceived leadership behavior were positive and of moderately-high magnitude (Jones, James, & Bruni, 1975). In the context of this sub-section, this indicates that, although rank certainly plays a role in perceived leadership behavior, the individual relationships between employee and supervisor as defined by confidence and trust also are a major factor.

In terms of SOX testing, the relationship between the employee testing the controls and the manager overseeing these tests will influence the employee’s perception of the value of SOX. In fact, another study describes that the tone at the top of an organization can have a positive effect on earnings quality (Hunton, Hoitash & Thibodeau, 2011). This implies that the actions of leadership have an impact on the actions of lower level employees. What remains to be seen, however, is to what extent tone at the top affects employees of lower levels of organizations within the specific context of SOX and its mandated activities.

As shown, there are many studies that focus on the role of SOX in changing the behavior of directors and executives. These studies demonstrate that executives and directors likely understand the benefits of SOX because they are strongly affected by its mandates and implications. However, there has been little research conducted on how employees at lower levels within organizations value SOX. This gap in scholarly literature regarding how employees from different hierarchical levels value SOX is what the current study will investigate. Given that other research has uncovered differences in employee perceptions across hierarchical rank within an organization, such as in the case of perceptions of leadership, it is important to address this gap.
3. Methodology

In order to make a meaningful contribution to the existing literature, I tested two separate hypotheses regarding the relationship between organizational rank and perceptions of SOX. The following section lays out the two hypotheses, describes how the data was collected, and outlines the method of analysis used to evaluate the hypotheses.

3.1 Hypotheses

As shown in Section 2, SOX adds both pressure and incentives to employees at high levels within organizations. Finance Executives are now personally held liable for certain fraud that occurs within their organization. Likewise, investors and other outsiders are focusing more on the accounting practices of companies, which puts more pressure on financial leaders to ensure that strong financial controls are in place (Wang et al., 2010).

However, employees at the upper echelons of the organizational chart are also more likely to receive bonuses and awards or recognition when a department is exceeding goals in terms of its accounting policies and controls. Thus, they are even more exposed to the benefits that SOX can create in terms of tighter controls and more discipline across the organization. Employees at lower levels would not feel these benefits because they likely are not as liable for weaknesses in internal controls. Therefore, given these asymmetric costs and benefits, this leads me to my first hypothesis regarding organizational rank and perceptions of SOX:

*Hypothesis 1:* The likelihood that an employee believes that SOX has a positive net-benefit increases in hierarchical level within a given organization.
A by-product of hierarchical level is the amount of time an employee spends on SOX related activities, such as testing controls and writing SOX narratives. Prior research indicates that in an experiment where numerous variables were studied, internal controls were the most influential factor in how employees assessed the value of SOX (Ugrin & Odom, 2010). However, not all employees spend the same amount of time testing these controls. When an employee spends weeks out of a year testing for SOX, they are clearly incurring its costs in the form of time and extra workload. Employees who do not spend time on SOX-related activities will have less experience with the costs of SOX, meaning they will likely value SOX with a higher net-benefit than those employees who spend more time on SOX-related activities.

_Hypothesis 2:_ The likelihood that an employee believes SOX has a positive net-benefit decreases with the amount of time that employee spends on SOX-related activities.

3.2 Data Collected

Because the research question involves determining how employees at different levels assess the value of SOX, I interviewed multiple levels in a single organization. I conducted 16 in-person interviews during the summer of 2011. Various questions were asked of each employee in order to obtain information regarding their role with SOX and their perception of it. Information gained from these questions included:

- Employee’s hierarchical level
- Time employee has spent at company and in current position
- Nature of tasks employee completes related to SOX
- Frequency that SOX is brought up in meetings
• Amount of time employee believes direct reports spend on SOX (if applicable)
• Most notable benefits of SOX and its related activities
• Most notable costs of SOX and its related activities

In addition to these qualitative discussion questions, each employee was also asked the following question in order to gain a high-level quantitative assessment of how each employee viewed the net benefit of SOX: “In thinking about the costs and benefits, please assess your perceived net benefit of the continuing efforts of SOX and its testing for this company.” The employees chose a response based on a Likert scale, with 1 being large negative net benefit and 7 being large positive net benefit.

This firm has two separate accounting departments. One is a shared service unit which supports multiple business lines. The second department is responsible for the accounting for a single business unit.

Employees from three different levels within the organization were interviewed. Each department has one director. Three managers from the Shared Services unit were interviewed, as well as one of each of their direct reports. The organizational hierarchy of the selected employees is shown below in Figure 1.
The layout of the individual business unit is slightly different. There are two managers under the director and two employees under each manager were interviewed as well. In addition, two plant managers were interviewed. The organizational hierarchy of the selected employees is depicted in Figure 2:

**Figure 1: Shared Service Organizational Hierarchy**

![Image of Shared Service Organizational Hierarchy]

**Figure 2: Business Unit Organizational Hierarchy**

![Image of Business Unit Organizational Hierarchy]
3.3 Analysis

This study is primarily a qualitative analysis. However, the question which included a Likert scale was intended to add a high-level quantitative assessment with which to guide the discussion. This will help assess how employees within each level view the value of SOX and its testing. By using this quantitative value, I can measure the value employees place on SOX by analyzing both hierarchical level and amount of time employees spend on testing. This analysis is very high-level and serves as a guide for the further analysis. It is not intended to single-handedly “prove” either of the hypotheses true. Rather, it serves as spring-board to the more in-depth qualitative analysis.

In order to assess hypothesis 1, I examine the organization chart including the net-benefit rating that each employee gave to SOX. Then, I examine the perceived net benefit within and then across each rank. For values that appear to be systematically higher or lower than the others, I examine the specific interview responses to determine the major factors that affect their perceived value of SOX. Using the interview excerpts achieves two goals. First, it helps confirm and describe why an employee ranks SOX as they did, and also why they listed the costs and benefits that they did. Second, it adds richness to the research in the sense that the excerpts signal the root causes of the employee perceptions and adds to the field more insight as to what drives these employee perceptions.

In order to assess hypothesis 2, I asked each employee how much time they spend per quarter on SOX and its related activities. I assess the relationship using a scatter plot with the time each employee spends on SOX on the x-axis and then their answer to the question above on the y-axis.
The final measure to assess both hypotheses involves how employees of each level listed the major costs and benefits of SOX and its testing. Each interview was transcribed and excerpts that supported or contradicted each hypothesis were highlighted and copied to its respective sheet. Each employee also listed what they believe are the top costs and benefits of SOX and its testing. I assess across each level which costs and benefits were the most prevalent. In terms of the qualitative analysis, I have grouped the common costs and benefits using the lists that each employee provided in their answers. I then analyze trends, looking at commonalities and differences along levels. The purpose of this is to understand the key drivers of the total net benefit by understanding more about the costs and benefits.

3.4 Appropriateness of method of analysis

This method is appropriate for testing the hypotheses because it clearly investigates the difference in perception across levels of an organization rather than solely looking at the highest levels of an organization. It also is appropriate because it analyzes the root cause of each employee’s perception of SOX rather than solely taking a high level survey. This explains more of the inputs to the overall net value, whereas the existing literature appears focused solely on the outcomes. This can be useful for managers and business leaders who are looking for ways to improve the perceived value of initiatives across different ranks within their organizations.

The main assumption is that the results from the study of one company may be generalized to reflect the greater population. There are certain features that set this company apart from other companies. The reason this is not a limitation is because the hypothesis discusses change in perceptions within an organization. Thus, it does not matter if the
organization is skewed positively or negatively in its view of SOX, as the hypotheses solely address the change among levels within an organization.

4. Results

The following figures display how the perceived value of SOX varies across each organizational level. Figure 3 displays the results for the Shared Services Unit, while Figure 4 displays the results for the Individual Business Unit. Figure 5 shows how the employees valued SOX as a function of the amount of time they spent on SOX-related activities. Table 1 provides more detail on the most frequently cited costs and benefits of SOX.

Figure 3: Employees’ perceived value* of SOX by hierarchical level (Shared Services Unit)

Panel A:

<table>
<thead>
<tr>
<th>Level</th>
<th>Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>6.0</td>
</tr>
<tr>
<td>Manager- Line 1</td>
<td>5</td>
</tr>
<tr>
<td>Manager- Line 2</td>
<td>6</td>
</tr>
<tr>
<td>Manager- Line 3</td>
<td>6</td>
</tr>
<tr>
<td>Employee</td>
<td>5</td>
</tr>
<tr>
<td>Employee</td>
<td>5</td>
</tr>
<tr>
<td>Employee</td>
<td>2</td>
</tr>
</tbody>
</table>

Panel B
Figure 4: Employees’ perceived value* of SOX by hierarchical level (Individual Business Unit)

Panel A

Panel B

<table>
<thead>
<tr>
<th>Level</th>
<th>Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>6</td>
</tr>
<tr>
<td>Manager Line 1</td>
<td>5.5</td>
</tr>
<tr>
<td>Manager Line 2</td>
<td>5</td>
</tr>
<tr>
<td>Employee</td>
<td>5</td>
</tr>
<tr>
<td>Plant Manager</td>
<td>5</td>
</tr>
</tbody>
</table>

*Note: The values shown above represent each employee’s answer to the following question: “In thinking about the costs and benefits, please assess your perceived net benefit of the continuing efforts of SOX and its testing for this company” measured on the following scale:

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Large Negative</td>
<td>Moderate Negative</td>
<td>Slight Negative</td>
<td>Neutral</td>
<td>Slight Positive</td>
<td>Moderate Positive</td>
<td>Large Positive</td>
</tr>
</tbody>
</table>
Figure 5: The Relationship between Employees’ Perceived Value of SOX and Time spent on SOX activities

![Graph showing the relationship between Value Rating and Hours/Year spent on SOX activities.]

Table 1: Details on Benefit and Costs

Panel A: Percentage of employees listing "time" as a major cost

<table>
<thead>
<tr>
<th>Organizational Level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>1 of 2</td>
<td>50%</td>
</tr>
<tr>
<td>Manager</td>
<td>2 of 5</td>
<td>40%</td>
</tr>
<tr>
<td>Employee</td>
<td>5 of 7</td>
<td>71%</td>
</tr>
</tbody>
</table>

Panel B: Most Cited Benefits and Costs

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Frequency</th>
<th>Costs</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Controls</td>
<td>5</td>
<td>Time</td>
<td>8</td>
</tr>
<tr>
<td>Process Improvement</td>
<td>4</td>
<td>Overlap Between Audit and SOX Group</td>
<td>5</td>
</tr>
<tr>
<td>Control Awareness</td>
<td>2</td>
<td>Initial Start-up</td>
<td>3</td>
</tr>
<tr>
<td>Discipline</td>
<td>2</td>
<td>Over-standardization</td>
<td>2</td>
</tr>
<tr>
<td>Visibility to the Field</td>
<td>2</td>
<td>Disconnect between Corporate and Field</td>
<td>2</td>
</tr>
<tr>
<td>Segregation of Duties</td>
<td>2</td>
<td>Document Retention</td>
<td>2</td>
</tr>
<tr>
<td>Consistency</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 2: Employees’ Perceived Value* of SOX at Different Points in Time

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>4.5</td>
<td>5.1</td>
</tr>
<tr>
<td>Rating</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The values shown in Table 2 represent the same Likert scale as displayed after Figure 2. However, the first question inquired about the perceived net benefit of SOX in 2006 during *initial implementation* and the second question inquired about the perceived net benefit of the *continuing efforts* of SOX in 2011. These averages include all 16 interviewed employees.

As shown in Figures 3 and 4, the average perceived value of SOX for directors was higher than the average score for the lower level employees. While not every lower level employee perceived less net benefit in SOX than the managers or directors, there were two that gave SOX a rating of 3 or less. One of these employees mentioned the costs of arguing with the SOX team over rationalization of controls, as well as the frustrations of trying to standardize processes that can differ across departments. They also mentioned that being that the company has so many other measures with which to prevent fraud (such as sign-off’s and variance analyses), SOX does not seem to provide extra benefit through the prevention of potential fraud. The other employee who gave SOX a lower rating cited the overlap in work with the internal audit department as well as the frustration of doing work “solely to satisfy the requirements.” Thus, as displayed, the results do support hypothesis 1.

As shown in Figure 5, there is no clear correlation between the amount of time spent on SOX and the perceived value of SOX. However, this could be partly due to the question that was asked in terms of time spent on SOX. It was not anticipated that managers and directors would spend significant time in oversight meetings and control rationalization meetings. The displayed time in Figure 5 shows all of these activities. However, Table 1, Panel A provides support to the hypothesis as employees at lower levels were more likely to cite time spent on SOX activities as
a major cost of SOX. This could indicate that the activities involving SOX that Directors and Managers perform are more beneficial and are seen as less of a cost. Therefore, hypothesis 2 is not directly supported by the current findings. However, because of the discrepancy in the classification of “SOX Activities”, this study does not conclusively reject the hypothesis either. This discrepancy, as well as potential solutions for future research, will be discussed further in Section 5.

5. Discussion

This section discusses how this study lays the groundwork for future research and has greater implications than solely the variance in employee perceptions of SOX within organizations.

5.1 Future Research on SOX

The current study serves to fill the gap in existing literature regarding how the perception of SOX varies among employees within a single organization. If more resources were available for a future study, it would be useful to conduct a similar study with a much larger sample size of employees from numerous organizations. By sampling employees from many different organizations, the strength of the results would be stronger as the single-firm bias would be mediated by the large sample size.

Another finding in the research was that the maturity of a company’s SOX program affects the perceived value of SOX. The company that was studied started its SOX program in 2006. Thus, in addition to asking about the perceived value of SOX in the current environment, each employee was also asked about their perceived value of the start-up of SOX in 2006. Taken
on an aggregate level, the employees’ perceived value of SOX in the current environment exceeded their perceived value of SOX in 2006. Thus, in the future, it would be useful to, on a larger scale, investigate this effect in order to truly understand how the value of SOX changes as the program becomes more engrained within a company. This company found a way to engrain SOX in its process improvement and found a way to utilize SOX to create benefits. The proposed study would investigate if this is common across companies or if most companies never truly integrate SOX as a means of enabling best practices.

As shown in Table 2, the average perceived net value of SOX increased over time. The leading driver of this was control rationalization, which means there are now fewer tests than before and these tests focus more on key controls. As one manager recalled the initial implementation of SOX, he stated, “Everyone was going crazy just testing everything...early on there was probably a lot of wasted time...I spent so much time testing the controls that I don’t even have time to do the controls anymore. People felt like there was an imbalance there.” However, over time, this has changed. Another manager discusses this change by stating, “Initially, we were really slow to do the rationalization. I think when I started in SOX three years ago, we had something like 900 controls that we tested, down now to...I don’t know what the latest number is but I think it’s down to a few hundred, maybe even less than that. So I think we were just a little bit slow to do a lot of change there.” Because of this “learning curve” for companies, future research should consider where companies are in terms of the maturity their SOX program when assessing the perceived net value of SOX and its testing.

In order to address the data inconclusiveness shown in Figure 3, a better measurement of time should be used in future studies. The current study solely used “time spent on SOX and related activities” as the measurement for time. In the interviews, employees were simply asked
how much time they spend on SOX and related activities. Inevitably, the hours given were
typically estimates based on what the employees could best remember at the time of the
interview. To improve upon this in future research, employees should keep logs of each activity
with different categories of each activity. This will achieve two goals. First, employees will be
able to give a more accurate measure of their hours. Second, by consciously thinking about
where their time is being spent in terms of SOX, employees will hopefully be able to better
analyze for themselves the net value of SOX. This will be much more beneficial than just stating,
for instance, “Oh, I probably spend about 20 hours or so on SOX activities per quarter.” In
effect, the use of logs for hours will reduce the measurement error that was likely evident in this
study.

Another issue with the current method was that no distinction was made between time
spent testing SOX controls, participating in oversight meetings, writing narratives, conducting
control rationalization, or any other activity. However, these activities likely do not hold the
same value. For instance, testing SOX controls is likely seen as more of a cost, while conducting
control rationalizing in order to improve the overall SOX process likely holds more value to
employees. Instead of grouping the activities all together, they should be separated into
“proactive” and “reactive” groups. The proactive activities would relate to time spent on
improving processes and in general creating value from SOX and its activities. In this case,
process improvement meetings and control rationalization would be considered proactive tasks.
The reactive activities would be tasks which the employee was forced to do because of a
mandate or a control. In this case, pulling documents for testing or completing SOX testing grids
would fall under the reactive category. These activities are solely completed to meet
requirements and typically are not flexible in terms of how they can be completed. By
differentiating between these two tasks rather than combining them all into one measurement, the researcher can better understand the relationship between time spent on activities and the employee’s perceived value of SOX.

Another factor that must be considered in the discussion of time spent on SOX is how the various activities work together to change each employee’s perception of SOX. In other words, if an employee’s sole SOX activity is testing, then they will likely see this testing as a costly activity. However, if an employee who regularly conducts SOX testing were able to participate in control rationalization meetings, their assessment of the testing may change. One reason for this is they will ideally be able to better understand the benefit of the testing and realize that the remaining tests are actually related to critical controls. By participating in these proactive meetings, employees will likely feel more empowerment and will not feel like the testing is solely a reactive activity that will never be improved.

However, for employees who have a strong background in accounting or who are involved in more proactive SOX activities, testing may be seen as simply a means for reaping the total benefit of SOX. One employee in this study explained the effect that a background in accounting can have on one’s assessment of the value of SOX. They stated that “a lot of people probably don’t see the benefit. I think starting out in corporate and having an audit background…I think most ‘corporate types’ probably get the cost benefits. My guess is if you went out to the plants and some of the other places they probably wouldn’t see that benefit.” This was a common theme in the interviews, especially with employees who oversaw testing that was done at the plants. Thus, another variable that would be useful to test in future studies is the background that each employee has. This could include different experiences with the current company or experiences prior to employment at the current company.
5.2 Broader implications

There are two broader implications of the current study. The first implication relates to the first hypothesis. Employees at higher hierarchical levels of one organization were shown to perceive a higher net benefit of SOX than employees in lower hierarchical levels of the same organization. If these results can be generalized to more than simply SOX and its testing, then this means that management must consider how everyone within their organization is affected by various initiatives and mandates. They must think about which employees benefit most from each initiative and which employees bear most of the costs. By allowing employees from all organizational levels to participate in meetings and help make decisions and improvements, management will benefit from seeing a truly holistic view of the costs and benefits of each initiative. Many of the costs of SOX in this study came from the fact that management and the SOX team did not completely understand what each employee’s role with SOX was. If this could be better understood, then these costs could potentially be reduced or eliminated.

For example, an initiative may have great value at the higher levels, but by the time the work trickles down to the lower levels, this benefit could be lost. One manager in this study was quoted as saying, “I think, unfortunately, there is a lot of documenting and that type of thing that probably takes time and is a pain, but at the same time, I think that is you know that we have controls in place and are doing adequate things to mitigate risk… While the documenting is not fun at least people can get a better understanding of process holes”. However, if the lower level employees are not shown exactly the value of this risk mitigation, then they may not see the full value. It is common for a proponent of a new initiative to persuade management that there is substantial value in implementation. It is much less common for management to pitch the idea back down the organizational hierarchy when actually making changes and implementations. If
employees have more exposure to the benefits of a new initiative, then they will likely perceive
the initiative with a higher net benefit.

The second implication lies in the benefits of SOX, as demonstrated by the 16 responding
employees. Only one of the 16 employees mentioned fraud detection as one of the leading
benefits of SOX. While some employees mentioned that SOX can help set a tone of discipline
and can be helpful with segregation of duties, other employees were more skeptical. One
manager stated, “If people are going to try fraud, they are going to find some way of doing that.”
Being that Congress enacted this law after the accounting scandals of the early 2000’s, one could
question the success of SOX in serving its initial purpose. Granted, as shown by this study, there
are many benefits associated with SOX. However, these benefits are much more related to
accounting best practices than they are to protecting U.S. citizens. Thus, it may be the right time
for Congress to reevaluate SOX and how well it is serving its initial purpose.

6. Conclusion

The primary aim of this study was to investigate how perceptions of SOX and its related
activities vary based on an employee’s hierarchical level within an organization. The motivation
of this research stemmed from the general perception of SOX and the current gap in existing
literature. Although it has been seen through first-hand experience that SOX can be a tedious,
time-consuming activity, existing literature demonstrated that many executives and directors
valued SOX. However, the literature did not address the variance in the perceived value of SOX
between employees of different hierarchical levels within an organization.

In order to address the research question, 16 employees across three different ranks
within an organization were interviewed. After analyzing the results of these interviews, it was
concluded that there was, in fact, evidence to support the hypothesis that employees are more likely to value SOX if they are positioned higher on the organizational chart. However, the results did not support the hypothesis that as an employee spends more time on SOX-related activities, their perceived value of SOX would decrease. This was largely due to the presence of SOX activities that, unlike testing, do indeed have the potential to provide value to the employee performing the activity.

While it would be easy to omit these results as simply being “outliers”, that would be incorrect given the hypothesis. The hypothesis states that “The likelihood that an employee believes that SOX has a positive net-benefit increases in hierarchical level within a given organization.” Thus, because there were certain employees at lower levels who did give SOX a lower rating, it would presumably decrease this likelihood mentioned in the hypothesis. It is important to mention that as noted in the Methodology section, these results are not serving to single-handedly prove the hypothesis. Rather, they serve as proof that further research in this area is logical and would be beneficial.

This study provides a spring-board for related research and discussion. With more time and money as resources, it would be effective to conduct a similar study on a larger scale. This would further assess the positive relationship between hierarchical rank within an organization and the perceived net value of SOX. It would also be useful to pinpoint which activities within SOX provide value to the organization and its employees, as well as those that solely add cost. In addition, it would be very interesting to research how these concepts apply to other organizational initiatives, as well as if SOX is still serving its initial purpose. Overall, this study has shown that even if an executive states that they find value in SOX and its related activities,
this does not mean that all employees within their organization necessarily share the same perceptions.
References


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