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The Impact of Legislation on the Organization: Evaluating the Impact of Corporate Governance Regulation on the Internal Audit Function

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THE IMPACT OF LEGISLATION ON THE ORGANIZATION: EVALUATING THE IMPACT OF CORPORATE GOVERNANCE REGULATION ON THE INTERNAL AUDIT FUNCTION

BY

KEVIN KEITH JONES

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ACCEPTANCE

This dissertation was prepared under the direction of the *Kevin K. Jones'* Dissertation Committee. It has been approved and accepted by all members of that committee, and it has been accepted in partial fulfillment of the requirements for the degree of Doctoral of Philosophy in Business Administration in the J. Mack Robinson College of Business of Georgia State University.

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ABSTRACT

THE IMPACT OF LEGISLATION ON THE ORGANIZATION: EVALUATING THE IMPACT OF CORPORATE GOVERNANCE REGULATION ON THE INTERNAL AUDIT FUNCTION

BY

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The intent of this research is to inform companies that the internal audit function has greater utility than just corporate governance. The internal audit function represents a resource to the business that can be used in a number of ways to help it survive, compete and establish new growth opportunities in the marketplace for the firm. The proposed project will demonstrate through an interpretive process study using case study research how the internal audit function can be a strategic business partner by highlighting its contribution ability in a dynamic, ever-changing, regulatory laden environment. This paper uses Punctuated Equilibrium Theory to explain the organizational transformation of the internal audit function from a professional bureaucracy to an adhocracy as an unintended consequence of corporate governance legislation over time. The study expects to contribute to the literature by explaining the evolutionary change in the internal audit function from scorekeeper-and-watchdog to business-partner-and-change agent. This study will also analyze how senior management benefits from utilizing the internal auditors' experience as an organizational tool to address threats and opportunities.

CHAPTER I: INTRODUCTION

Today, businesses operate in a regulatory-intensive environment. The regulatory requirements represent huge challenges for many organizations. For example, regulation may require that an organization reevaluate its resource needs, skill sets and also assess the overall impact of the legislation on the organization. To study the impact of legislation on organizations, it is critical to first understand the concept of the organization i.e., the structure of the organization, how it responds to stimuli and how it adapts to ensure its survival. The word organization has many connotations: the term is associated with a system, structure or method. James March and Herbert Simon (1958) provide us with a definition of organizations in their book entitled "Organizations". They state, "Organizations are systems of coordinated action among individuals and groups whose preferences, information, interests or knowledge differ." In a similar vein, in the article entitled "Suggestions for a Sociological Approach to the Theory of Organizations", Talcott Parsons states that, "that the defining characteristic of an organization that distinguishes it from other social systems is the primacy of orientation to the attainment of a specific goal." But, as organizations operate to carry out their mission, they are exposed to threats and opportunities that can either bolster their growth or bring about their demise. Of particular concern is how organizations deal with the risks they encounter (Hutter 2005). Organizational changes lead to increases in risks. How an organization deals with the risk and understands its capacity to address it is a critical factor for its survival. Organizational changes can be triggered by sudden, dramatic discontinuities in the environment such as political upheavals, technological breakthroughs and large-scale shifts in government regulation (Haveman, Russo, Meyer 2001). When major changes in regulations occur, pressures cause organizations to adjust their structures, processes and strategies (Haveman, Russo, Meyer: 2001).

Regulatory pressures can affect institutional environments also by altering standards for accountability: e.g., rules for corporate financial reporting imposed when the Securities and Exchange Commission was founded in the 1930s, or requirements for reporting on human resources imposed by passage of Title VII of the Civil Rights Act in 1964 (Haveman, Russo, Meyer:2001). Similarly, significant events can have major effects: the collapse of Enron, Worldcom and Parmalat triggered a discussion about 'dis-organized' capitalism and led to legislation in the form of the Sarbanes-Oxley Act of 2002 (SOX) in the United States (Meyer 1997). Based on the discussion up to this point, it is relevant to ask whether large-scale regulatory changes create conditions that are unexpected and result in organizational risks and organizational changes. Several studies point to the relevance of these questions. For example, Merton (1936) indicates that large-scale regulatory change generates unintended outcomes. Robert Clark (2005) points to the need for taking corrective action and examining systematic issues for this purpose. In recent years, there had been several systemic events that had led organizations to rethink their governance structures and perform risk assessment. A major example of such a systemic event is the accounting scandal that arose from the failure of prominent corporations such as Enron, Worldcom and a few others. These events raised questions about the efficacy of current corporate governance practices. In response, the legislative branch of the US passed the Sarbanes-Oxley Act of 2002 (SOX) to enforce accountability, controllability and transparency in financial reporting and ethical business practices. The comprehensive scope of SOX compelled organizational managers to seek help from their internal auditors to make them SOX compliant. This, in turn, demanded that internal auditors deemphasize their role as mere scorekeepers and watchdogs to business partners and change agents. While this change was necessitated because of the external pressure imposed by

legislation, it is uncertain whether organizations considered all of the unintended consequences that could arise. Therefore, to examine how legislation leads to organizational transformations, this study uses the internal audit function and its transformation as a governance mechanism. Very few studies have focused on internal audit's new role as a strategic business partner after the implementation of SOX. However, within organizations there appear to be significant use of the internal auditors' expertise to manage business challenges and risks. For example, organizations are requiring the help of the internal auditors more and more to help with risk assessments, risk mitigation and with due diligence. Therefore, it would be possible to use the changing role of internal auditing to study the regulatory impact on corporate governance.

CHAPTER II: BACKGROUND LITERATURE

This study, after examining the literature devoted on organizational issues, specifically organizational change and strategy, corporate governance and the internal audit function, discusses how an organization (or its subset) can be encouraged to transform or make structural and managerial changes because of environmental factors (e.g. a proposed or new regulation). The remaining parts of this study are organized as follows: section 2 that follows will discuss the background literature related to organizational changes as a consequence of environmental changes. This discussion will also include the organizational response to regulation that specifically addresses the changes related to one of the governing mechanisms-the internal audit function. Section 3 will discuss the theories that are relevant to examine organizational changes and will discuss issues such as self-organizing systems, organizational innovation and exploration vs. exploitation. Section 4 will present the research questions, and section 5, the research methodology. The last section, section 6, will discuss the findings and the expected contribution and the limitations of the study.

II.I THE DYNAMICS OF THE ENVIRONMENT ON THE ORGANIZATION

Organizations are analogous to organisms. An organism is defined as a form of life composed of mutually interdependent parts that maintain various vital processes; any organized body, system or organic structure similar to a living being. Organizations constantly change and also adapt to the environment in which they reside. McNamee and McNamee (1995), state that, "change is the metamorphosis that leads to evolution in the environment; systems in nature are full of success stories of organizations that changed and adapted to their environment: those organisms that stayed connected to their environment thrived, and those organisms that did not stay connected failed to adapt and perished." As these studies point out, organizations that adapt

to changes succeed while others fail (McNamee and McNamee 1995). Therefore, it is important to examine the changes that organizations make in response to a changing environment.

II.II THE ORGANIZATIONAL RESPONSE TO REGULATION

Organizational responses can be segmented into two primary areas: selection and adaptation (Hannan & Freeman 1977). Selection emphasizes the limits or constraints imposed by the environment on organizations' ability to adapt, which allows the stronger ones to advance and the weaker ones face extinction or survive only as new organizational forms (Aldrich and Pfeffer 1976; Hannan & Freeman, 1977). As organizations encounter environmental changes, their adaptive abilities must be robust enough to allow adjustments for its survival. One key example of an environmental change is regulation. Cook, Shortell, Conrad and Morrisey (1983) argue that regulation is a type of cost that can strain an organization's resources and threaten its existence. Therefore, the nature and scope of regulation can have a significant impact on the organization. One way to evaluate the impact of legislation on the organization is to illustrate it through a model. Greer and Downey (1982) provided a model termed "Compliance with Social Legislation (CSL) Model". This model highlights opposing forces that describe the behavioral response to regulation by organizations. Some of the foundational support for Greer and Downey's (1982) CSL Model is attributed to the work of Kurt Lewin. He wrote a book entitled, "Field Theory in Social Science" (1951), which discusses the behavior of organizations in terms of opposing forces. These forces are categorized into restraining and driving forces. Rules, procedures and requirements represent examples of restraining forces. If restraining forces are not addressed, then a penalty or consequence may be assessed for not being compliant. Conversely, goals and objectives associated with the organization's mission like being a good corporate citizen and/or market leader are key examples of driving forces. These driving forces

push the organization to excel to higher heights or achieve some organizational goal. Thus, organizations are subject to restraining and driving forces in the environment that can force it to respond in certain ways by altering its strategy and structure.

In order for organizations to respond to the environmental changes and forces, it is often necessary to revamp the strategy and reorganize the structure. Miles, Snow, Meyer and Coleman (1978) suggest that organizations are always searching for ways to reevaluate and realign their structure to accomplish goals and objectives. In the wake of SOX, the internal audit function's strategy and structure changed. The internal audit function is characterized as a professional bureaucracy that consists of trained specialists or professionals with autonomy to perform their work (Mintzberg 1980). This was the structure of the internal audit function that had existed prior to the implementation of SOX. Since SOX was serious corporate governance legislation, it also demanded that the internal audit function change dramatically to suit the new regulatory requirements and become a dominant coalition among an organization's decision makers (Child 1972, Cyert & March 1963). Child uses the term dominant coalition to distinguish those who "normally have the power to make decisions on matters such as the design of organizational structure from others who are in a position of having to respond to such decisions." The dominant coalition concept highlights the issues of distribution of power and the process of strategic decision-making within an organization (Child 1972). In contrast to Child's dominant coalition concept, proponents of the strategic-choice perspective argue that organizational behavior is only partially preordained by environmental conditions and that the choices which top managers make are the key determinants of organizational structure and process (Miles, Snow, Meyer and Coleman 1978).

With the advent of SOX, the decision structures within an organization are becoming adhocratic. An adhocracy is necessary in dynamic and complex environments where management needs to address critical issues or enact change. It is a type of structure that centralizes authority and resources to ensure the organization's survival and bolster its growth (Mintzberg 1980). In the case of the internal audit function, adhocracy was exhibited when the function begins to move away from the effectiveness of corporate procedures and compliance with laws to facilitating, coordinating and leading the organization in a new direction (Miles, Snow, Meyer and Coleman 1978); that is, when internal auditing begins to move from its traditional ways of functioning.

The impact of SOX legislation is not unique; other legislation has had a dramatic impact on the institutional and organizational environment in terms of their strategies, structures and activities (Haveman, Russo and Meyer 2001). For example, according to Miner et al. (1990), Finnish newspapers responded to legislation by altering their content, changing the editor and implementing other measures. Another example would be the government mandated breakup of AT&T. After the divestiture, AT&T still continued to do well even though state regulators continued to restrict the amount of leverage it had (MacAvoy and Robinson 1985). The Airline Deregulation Act of 1978 represents yet another example of how the impact of legislation changed the institutional and organizational environment internally and externally. Also, in 1978 the Public Utilities Regulatory Policies Act (PURPA) stated that the utility companies were required to purchase power from third-party producers that were equivalent to the cost if produced in house (Russo 2001). According to Joskow (1988), this act caused an institutional shift in the initial role of supplier to one of competitor. Hospitals and healthcare providers offer us some keen insight into this phenomenon as well. For example, hospitals and healthcare

providers respond to the legislation by filing lawsuits, forming committees and establishing programs to address the concern internally (Cook, Shortell, Conrad and Morrisey 1983). From an external perspective, healthcare providers may respond by forming mergers, alliances and special interest associations designed to influence or change regulation (Cook, Shortell, Conrad and Morrisey 1983). According to Hoffman (1999) and Meyer (1982), upheavals represent disruptive events that help to explain and predict the genesis of organizational change. Lastly, the celebration of Earth Day sparked a movement to hold the heads of the nation's leading chemical manufacturers accountable for damaging the environment; this movement prompted great concern for environmental issues that made it a priority for the government to take action (Hoffman 1999). As a result, President Nixon signed an executive order that created the US Environmental Protection Agency in 1970. Hoffman (1999) states that, "the establishment of the EPA precipitated a formal structure for the organization field that went beyond the increasing dialogue." In brief, Haveman, Russo and Meyer (2001) suggest that, "all industries are punctuated by discontinuous change, and shifts in regulatory regimes often trigger these upheavals." Therefore, the impact of legislation can trigger responses that alter the structure, strategies and activities of the organization going forward.

II.III THE INTERNAL AUDIT FUNCTION – CHANGING ITS TRADITIONAL ROLE

Internal audit is defined as the independent, objective assurance and consulting activity designed to add value and improve an organization's operations (IIA 2000). Internal auditing helps an organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA 2000). The scope of internal auditing within an organization is broad in nature and encompasses such issues as operational effectiveness, financial reporting reliability, fraud

detection and monitoring, safeguarding of assets and compliance with laws and regulations. Traditionally, internal auditing, like other forms of auditing, is a system of checks and balances. Internal auditing can also be characterized as "procedure enforcement," where the internal auditors monitor how people comply with procedures within organizations. For example, internal audit is a mechanism to double-check the thousands of financial transactions that are posted to the records periodically (Pickett 2004). These descriptions show that the internal audit function was a detailed low-level check of numerous financial transactions. However, in recent years, this focus of internal auditing on transaction verification has been changing and the focus is shifting more and more towards helping managers with assessing and managing organizational risks. This shift in focus appears to have begun during the 1950s and 1960s. Up to this point, the internal audit function was considered a compliance-based group primarily known for identifying errors. Then, the focus shifted to address the root cause of the errors. As the internal audit function began to probe deeper, they found instances where policies and procedures were not clearly documented or understood to prompt the desired action (Pickett 2000). As a result, the auditors would make recommendations to address the issue and/or improve the process (Pickett 2000). By offering assistance to process owners-this act alone- may have initiated the expansion of the internal audit function's role. As time progressed, the next phase that emerged was evaluating and reporting on the internal control structure of the organization. Many organizations were automating and using systems to process transactions. Systems and automation generate complexity for the organization, thereby creating new control risks and opportunities (Boulding 1956). During the last two decades, there have been increasing demands on the internal auditing profession to change – this time around, it is requiring them to take a more proactive role in corporate governance. As corporations and the accounting profession

ushered in a new millennium with a plethora of accounting and corporate fraud scandals, it raised serious questions about the inherent soundness of the current corporate governance model. Organizations were violating rules and procedures designed to properly account for transactions. Fraud was rampant. Moreover, there was no accountability. All of these events are symptomatic of the systemic issues in the corporate governance arena. The pivotal point in this crisis was Enron. It was the final spark that rendered the current corporate governance system ineffective. Therefore, strengthening the corporate governance system had to be critical priority. A significant effort in strengthening corporate governance was the enactment of the Sarbanes-Oxley Act of 2002.

II.IV A BRIEF HISTORY AND OVERVIEW OF THE SARBANES-OXLEY ACT (SOX)

The Enron debacle signaled a clarion call for deliberate and decisive action. There was something egregiously wrong and the legislative branch of the US government was forced to respond. Consequently, the Sarbanes-Oxley Act of 2002 was passed by the congress to overhaul the system and implement regulatory guidelines to achieve accountability, transparency and reliability during corporate disclosures. These scandals were about inflating profits, capitalizing operating expenses, masking debt with the use of derivatives and using questionable accounting practices to defraud investors and stakeholders. Furthermore, these scandals showed how the auditors did not maintain their independence, which created an atmosphere for unethical behavior to occur. As a result, these scandals revealed a lack of enforcement by the accounting profession and other organizations (Standard setting bodies, FASB, SEC, etc.).

The genesis of these monitoring agencies can be traced back to the Securities and Exchange Act of 1933 and 1934. The 1933 Act was the first major piece of legislation passed to protect investors by making certain that the information they receive is accurate and reliable

before they invest. The 1934 Act had responsibility for enforcing the securities laws, and it created the Securities and Exchange Commission (SEC). This act gave not only gave the SEC the power to enforce securities laws, but it had authority to establish accounting and auditing policies and standards. For the most part, the development of accounting policies was left up to the private sector and standard setting bodies such as the Financial Accounting Standards Board (FASB) and others. Thus, the accounting profession was self-regulated for years. After numerous accounting and corporate fraud scandals of the past decade, congress became extremely dissatisfied with the private sector's obvious inability to regulate itself, and therefore, created the Public Company Accounting Oversight Board (PCAOB) as a provision of the SOX Act. This board was created to provide objective oversight and guidance over the auditors, define specific processes and procedures for audit and enforce the provisions of SOX. PCAOB not only brought regulatory oversight to the auditors, by default, it enhanced the prominence of the internal audit function's role as well (Coates 2007). The internal audit function has an obligation to ensure that the organization complies with laws and regulations, but, more importantly, it has a fiduciary responsibility to ensure that adequate controls are in place and operating effectively. Thus, the internal audit function becomes the first responder because it works inside the organization.

The basic objectives of SOX were to establish new reforms and procedural guidelines to improve the areas of financial statement reporting, internal controls, audit and the board (Clark 2005). All publicly traded companies in the US are required to comply with SOX. Changes brought about by SOX were redefining the role of the external auditors by explicitly stating what services they could and could not perform. Secondly, companies were required to have a system of internal controls. Also, the authority to hire and set the compensation of external auditors was

given to the audit committee. Similarly, there were changes for the board as well. SOX demanded that the board have a majority of independent directors, including certain committees (audit, compensation, etc.) comprised of only independent directors (Clark 2005). Lastly, SOX required the board to have at least one financial expert, and establish a code of ethics (Krishnan and Visvanathan 2007).

In an effort to hold companies accountable for their actions, SOX required that financial statement controls be certified by key officers of the company i.e. CEO and CFO. The certification attests to the accuracy and completeness of the financial statements. If the organization fails to comply, these officers face the consequence of criminal penalties, including fines and imprisonment. As a result, managers began to rely on the assistance of internal auditors to help with certification by leading the risk assessment and testing internal controls. SOX made another impact by demanding more quality governance. For example, it established a whistleblower process to allow people in the organization to report issues to management without fear of retaliation. SOX mandated that a five year partner rotation take place. Moreover, it disallowed the external auditor from conducting both the general audit and preparing the tax return. Krishnan and Visvanthan (2007) state that, "the quality of governance and the external auditors are likely to play important roles in maintaining good internal controls that are critical to the integrity of financial reporting." Therefore, the presence of a strong internal audit function can go a long way in supporting and promoting effective organizational governance.

II.IV.i SARBANES-OXLEY DEMANDS CHANGES IN INTERNAL AUDITING

One of the important factors when evaluating the risk environment is making an assessment about the competence of the internal audit function. This assessment will allow the external auditor to determine how much reliance can be placed on the work of the internal audit

function. Typically, quality is a key factor in making that decision. If the internal auditors are competent, then the more the external auditors can rely on their work. Gramling, Maletta, Schneider and Church (2004) point out that, "due to the extensive requirements of SOX, the quality of the internal audit function must be high for the external auditor to rely on internal audit's work. According to statements on auditing standards 9 and 65, quality is defined by three factors: competence, objectivity and the quality of work performance. Some studies have suggested that professional certification, membership in the Institute of Internal Auditors and public accounting experience are associated with higher quality internal audit judgments and decisions." As companies prepared to address the requirements of SOX, the Chief Audit Executives (CAEs) increased their internal audit staff by hiring auditors who were qualified in terms of education, experience and training (Gramling, Maletta, Schneider and Church 2004). By making sure that internal auditors met these requirements, CAEs could validate a certain level of competency. Furthermore, another way to evaluate the quality and effectiveness of the internal audit function is to understand level and scope of outsourcing that might be occurring. Does the internal audit function outsource any internal audit activities? The answer to this question could give some perspective about the robustness and quality of the internal audit function as it executes its obligations and responsibilities. What are the conditions that the internal audit function would consider outsourcing activities? Outsourcing may be appealing to many internal audit functions because of the potential reduction of redundant audit work (resulting in external audit cost savings), the professional liability insurance of the external auditor and the reputation and technological expertise of the external auditor (Petravick 1997). If routine activities are outsourced by the internal audit function, then it creates the risk that independence may be impaired (Abbott, Parker, Peters and Rama 2007). This could also reduce the likelihood that

critical matters would be reported to the audit committee. If there are non-routine activities (that are non-recurring) that require specialized knowledge or skills that the internal audit function does not have, it may be beneficial to outsource them to the external auditor, while maintaining its independence (Abbott, Parker, Peters and Rama 2007). As a result, these actions created a stronger environment for both the internal and external auditors to maintain their independence and reduce the possibility of a conflict of interest (Clark 2005). Since the work (i.e. risk assessments, internal controls, etc.) of internal auditors is closely related to the requirements of SOX, the internal auditors' expertise is a valuable resource to lead the corporate governance process (Gramling, Maletta, Schneider and Church 2004; Ramamoorti 2003).

Another notable change that came about because of SOX was the new duties and responsibilities of the internal auditors with emphasis on corporate governance and risk assessment. Thus, the new priorities are performing risk assessments, SOX control testing, monitoring and remediating controls, facilitating risk management and conducting process improvement. In brief, these changes represent a key shift in the traditional role of the internal auditors to one that is geared toward corporate governance. Given the extensive nature and scope of SOX changes, it raises the question: where was internal audit? All of these companies had an internal audit department. However, it must be assumed that the internal audit department had either failed to evaluate the strength of internal controls and related policies and procedures or overlooked weaknesses in these. To a certain extent, the reasons behind internal auditing could be traced to their limited role within a corporation or even to the undermining of their independence by managers. The scope of SOX was massive. Moreover, it required management to certify the internal controls surrounding the financial statement preparation. Given the depth and breadth of what needed to be done, senior management in most companies

turned to the internal audit function to help comply with the new regulatory requirements. It was the most logical course of action for most companies because the internal audit function understands the internal control environment better than anyone in the company. Therefore, the internal audit function is clearly now engaged in helping senior management with this process. The internal audit function leads the efforts to identify, document, test and remediate internal controls. Moreover, it performs and coordinates the SOX testing for the business. Other corporate governance activities that internal audit provides assistance to senior management are the ombudsman process, the code of conduct, code of ethics and whistleblower hotline. Senior management uses the internal audit function in many organizations to administer the whistleblower and ombudsman process for the company. Since section 301 of the SOX act requires audit committees to establish whistleblower programs, internal audit should be useful in helping to facilitate the administration of these programs. As internal auditors assess the risk environment of the company, a key factor is determining if entity level controls are in place and operating effectively (Schneider 2008). A huge part of administering these programs is continuous monitoring. As senior management prepares to certify the controls around the financials, the internal audit function conducts an audit to ensure that no material errors and irregularities exist. Thus, senior management is relying a great deal on internal audit to perform the necessary due diligence to allow certification. There is a great deal of critical information that the internal audit function collects, analyzes and reports to senior management. Another important activity that the internal audit function provides is ensuring that the company maintains adequate books and documentation. As you can see, senior management and the audit committee cannot execute a lot of the fiduciary responsibilities entrusted to them if all parties are not working together while maintaining the level of independence needed to act in the best

interest of the shareholders. If any of the cornerstones (i.e. audit committee, external auditor, management and the internal audit function) of corporate governance are deficient or lacking in its ability to act responsibly, then the integrity of the corporate governance system is undermined.

Even though the internal audit function has clearly defined roles and responsibilities, senior management views the internal audit function quite differently after SOX. Here, I use the sports metaphor. Senior management learned that corporate governance was just one play in the playbook. As management set out to tackle a new, formidable opponent (SOX and other regulation), the internal audit function served as the coach designing every play to help the management succeed. Sometimes it takes a crisis and/or problem for organizations to learn new things and do things differently in order to survive. Thus, circumstances can force organizations to re-prioritize resources. SOX has definitely given a new perspective to the prominent role that the internal audit function has in strengthening corporate governance. According to Boury and Spruce (2005), they state that, "Section 404 of SOX is likely to be recognized as the most significant element in the expansion of the auditor's gatekeeper role affected by the Sarbanes-Oxley Act. Section 404 has established the auditor as the monitor of key aspects of corporate governance." Specifically, SOX has forced a level of transparent accountability and controllability with regard to internal controls over financial reporting. Hopefully, the internal audit function will serve as a strong impetus to raise the bar in corporate governance.

II.V THE LEADERSHIP ROLE OF THE INTERNAL AUDIT FUNCTION IN CORPORATE GOVERNANCE

According to previous research in internal audit literature, many opportunities exist for the internal audit function to play an instrumental role in corporate governance (Gramling,

Maletta, Schneider, and Church 2004). Today, organizations are pushing to put in place more effective governance structures and processes. Given the type of climate that exists, it is not surprising that the internal audit function is viewed as the ideal resource to assist with improving and supporting key governance processes by monitoring the controls and evaluating the operational effectiveness of management strategies and initiatives (Ramamoorti 2003). Therefore, each party is responsible for making a contribution to corporate governance. A significant part of organizational governance has to do with effective monitoring and oversight of risk management. The IIA (2003) states that, "the internal auditors, perceived as 'risk management experts', can expect to play an immensely significant and high-profile role within organizations for years to come." The audit committee is an operating committee of the board of directors charged with oversight of financial reporting and disclosure. The responsibilities include the following: overseeing the financial reporting and disclosure process, monitoring choice of accounting policies and principles, overseeing hiring, performance and independence of the external auditors, oversight of regulatory compliance, ethics and whistleblower hotlines, monitoring the internal control process, overseeing the performance of the internal audit function and discussing the risk management policies and practices with management Under SOX, the audit committee's role has been substantially strengthened by requiring the board to have a majority of independent directors, including a minimum of one financial expert (Krishnan and Visvanathan 2007). This rule in particular, cast dispersions about the effectiveness of gray directors serving on the audit committee in the past (Raghunandan, Read, and Rama 2001). In fact, the SEC stated that, "having at least one member with an accounting or finance background will improve the effectiveness of the audit committee in carrying out its financial oversight responsibilities."(Raghunandan, Read and Rama 2001). The internal audit function can be

useful by helping the audit committee perform its responsibilities effectively. This assistance includes reporting on critical internal control issues, informing the committee on the capabilities of key managers, suggesting topics for the audit committee's meeting agenda and coordinating with the external auditor and management to ensure the committee receives effective information. There are other areas where the internal audit function can take the lead. For example, the internal audit function will often operate and administer the whistleblower hotlines and ensure the ombudsman process is working effectively. Typically, the internal audit function will lead the compliance audits and ensure that the organization is compliant with laws and regulatory provisions. Auditing entity level controls such as the code of conduct and code of ethics for all employees is another example of how the internal audit function can demonstrate leadership. In addition, the internal audit function works with the external auditor to prepare for the general audit annually. Given the importance of the internal audit function, it is imperative that there be a level of coordination and positive interaction between management and internal audit (Raghunandan, Read, and Rama 2001). David Richards, former President of Institute of Internal Auditors, states that, "SOX elevated the importance of internal auditing. It is important that the four parties to good corporate governance – the board of directors, executive management, the internal auditors and the external auditors-are working together to assess the risks. It is a never-ending, ongoing task, not-a-once-in-a-lifetime event." Based on the roles and responsibilities of each of the four cornerstones, it is clear that there is great deal of interdependency present. Therefore, successful corporate governance is contingent upon a fluid relationship among the cornerstones, thereby making the internal audit function an integral part of the corporate governance framework (Vallario 2003). In brief, it is fair to say that SOX has dramatically influenced the regulatory landscape, changed the operating methodology of

companies and heightened the role of the internal audit function in monitoring and improving corporate governance going forward.

II.VI SOX CHANGES PERCEPTIONS ABOUT THE VALUE OF INTERNAL AUDITING

SOX changes perceptions about the value of internal auditing. Organizations are subject to changes in the environment. These changes can force an organizational response that can be characterized as adaptation or extinction (i.e. fight or flight). Because of the changes in the environment (e.g. regulation), the organization is prompted to respond in some way. It can respond by altering its structure, processes and/or resources (Haveman, Russo, Meyer 2001) to adequately address environmental threats and/or opportunities. Regulation is a major challenge for many organizations. SOX is a key example of this type of regulation. Some of the requirements of SOX entail identifying, testing and remediating key financial controls, and providing assurances about the efficacy of the internal control structure. Given the scope of this regulatory requirement, organizations need subject matter experts to help fulfill this mandate. If these subject matter experts are not in the organization, then the firm will most likely have to procure the services of financial control experts from the marketplace. This type of financial control expertise is an integral part of the normal duties and responsibilities of internal auditors. Since the IAF already possesses this type of knowledge and expertise, it is reasonable for organizations (specifically, senior management) to engage the IAF to advise, guide and lead the compliance effort for SOX and other corporate governance responsibilities. Therefore, if the IAF is successful in helping the organization address its risk and internal control concerns, then SOX may be a persuasive catalyst for changing perceptions about the value of internal auditing.

As a result of SOX, the internal audit function in companies has undergone a number of changes. For example, companies have devoted a number of resources to increase staffing of

their internal audit departments. Further, the size of the internal audit departments has doubled in some instances to meet the demands of SOX. Based on the empirical evidence from recent studies, internal audit budgets and staffing levels increased over 10% from 2001 to 2002 (Carcello, Hermanson, Raghunandan 2005). Also, the length and frequency of internal audit meetings with the audit committee increased to more than 25% (Carcello, Hermanson, and Raghunandan 2005). The re-prioritization of goals away from operating, risk and process improvement activities were among the changes that came about because of SOX (Carcello, Hermanson, and Raghunandan 2005). Given the many changes that have transpired from the twentieth to the twenty-first century, the internal audit function had to change the way it audits because of technology (McNamee & McNamee 1992). Auditors used to audit around the computer, which is considered a defunct practice today because of computers and Enterprise Resource Planning Systems (ERPs). Similarly, another change that bears mentioning is the methodology that internal auditors use today can be categorized into three major areas: financial, risk-based and operational auditing. Processes represent the heart and soul of the business. Typically, controls will be embedded (if they exist) in the processes. Hence, auditing the processes is likely to expose gaps and yield opportunities for further process improvement, which can help the organization achieve its goals and objectives. According to McNamee and McNamee (1992), "the new auditor is tapped with becoming the carrier of the organization's vision by making assessments about how well organizational processes contribute to that vision." Furthermore, McNamee and McNamee (1992) suggest that, "the future auditor will be an integrator, facilitating growth of the organization by establishing connections between groups, sharing resources and ideas and learning from mistakes."

CHAPTER III: THEORETICAL FRAMEWORK

Anfara (2006) presents us with a definition of a theoretical framework in a book entitled "Theoretical Frameworks in Qualitative Research". He states, "a theoretical framework is defined as any empirical or quasi-empirical theory of social and/or psychological processes, at a variety of levels (e.g. grand, mid-range and exploratory) that can be applied to the understanding of phenomena." There is a vast collection of theoretical frameworks that qualitative researchers can use that include the full gamut of disciplines ranging from the physical to the metaphysical worlds (Anfara 2006). Since there are so many ways to study or analyze a problem, the researcher must choose the theoretical framework that gives him the best lens to explain the circumstances regarding the phenomenon under investigation (Miles & Huberman 1994; Anfara 2006). Social theories are very common examples of theoretical frameworks used to provide rich insights about social phenomena in qualitative research (Wikipedia 2011). In many ways, theoretical frameworks provide an anchor or rationale to approach the discussion and analysis of phenomena. Yin (2009) suggests that the goal of qualitative researchers is to seek analytic generalization, which is almost the comparable equivalent to statistical generalization in quantitative research. Thus, it is important to ensure that the research is sound, relevant and rigorous. Given that this is an interpretive process, field study, it is imperative that we anchor the research using the theoretical framework that will best explain the phenomenon being evaluated.

Evaluating the impact of legislation on the organization can be approached from a collection of different theories and perspectives, which undergird the process of explicating change and development in organizations. Researchers and others have made a concerted effort to discern the meaning of how organizations change by using a variety of sources that include

theories and concepts from a number of disciplines (Van De Ven and Poole 1995). Van De Ven and Poole go on to add that, "this variation has created a theoretical pluralism that has uncovered novel ways to explain some organizational change and development processes…it is this interplay between different perspectives that helps one gain a more comprehensive understanding of organizational life, because any one theoretical perspective invariably offers only a partial account of a complex phenomenon. Moreover, the juxtaposition of different theoretical perspectives brings into focus contrasting worldviews of social change and development."

In order to build a robust theoretical foundation to study organizational change, we draw on the theoretical frameworks developed by Van de Ven and Poole and Weick and Quinn to anchor this research investigation. Van de Ven and Poole (1992, 1995) argue that process is a central tenet of their framework used to describe and explain organizational change. They point out that process is illustrated in three key ways throughout the body of knowledge. First, process is used as a rationale to interpret the causal link in a variance theory. Secondly, process is used as a way to classify constructs associated with individuals or organizations. Thirdly, process is used as a chain of events designed to show how things evolve over time. Van de Ven and Poole (1995) found that there are four categories of process theories that analyze and describe how change takes place (See Table 1). The theories are life-cycle, evolutionary, dialectical and teleological. Specific theories were considered using the Van de Ven and Poole's Framework to evaluate the change in the IAF.

Table 1 – shows selected theories used to describe organizational change classified according to Van de Ven & Poole's (1995) Motors of Change Framework.

Life Cycle Motor Theories	Evolutionary Motor Theories	Dialectical Motor Theories	Teleological Motor Theories
3.4.2 Self Organizing Systems	3.1 Punctuated Equilibrium	3.8 Conflict Theory	3.2 Unanticipated Consequences of Purposive Social Action
3.4.1 Autopoiesis	3.7 Natural Selection	3.9 Child's Dominant Coalition	3.6 Exploration vs. Exploitation
3.4 Systems Theory	3.3 Institutional Theory (Old Institutional Economics)		3.5 Innovation
			3.10 Legal Perspective

Van de Ven and Poole (1995) point out that life-cycle theory is associated with organic growth, development cycles and adaptation to a changing environment. Its application is prevalent in areas such as child development, research and development and venture capital organizations as well as biological processes. Life-cycle theories are important to the study of organizational change because it explains the stages of development an entity passes through. For example, the IAF changed by showing growth from a mere error-checking function to a consultant and advisor. Because of SOX, the role of the IAF changed in the organization. SOX was a catalyst for the change because of the new demands it placed on the organization. There are three life-cycle theories that help explain this change; they are self-organizing systems, systems theory and autopoiesis. Self-organizing systems state that parts of a system work together for a common goal or purpose, and there is a great deal of communication and coordination. This theory is applicable to the IAF because it is subset of the larger organization working with senior management and the audit committee to help the organization become SOX compliant. Therefore, the IAF is an example of a self-organizing function. Systems theory is relevant because it describes how the behavior of the organization changes when faced with

conditions (threats and opportunities). It is not unusual for organizations to modify their structures and processes to meet these new demands. The IAF's responsibilities changed as a result of SOX to an advisor and/or consultant. Thus, the IAF moved away from its traditional role of scorekeeper to change agent. Lastly, autopoiesis is an applicable theory to describe the organization because of reproducibility. This theory can be used to illustrate how the IAF reinvented itself without sacrificing the key parts of its identity (i.e. safeguarding assets, segregation of duties, internal controls, etc.). In other words, the IAF can change itself to respond to the changing needs of the organization. Thus, the IAF can exhibit the characteristics of an autopoietic system. In sum, life-cycle process theories can be used to explain organizational change through various stages of development. Although life cycle theories represent one alternative to explain organizational change, they are not well suited for explaining the change in the IAF because it does not properly describe why the change occurred. Even though there are characteristics or aspects of certain life-cycle theories that could apply, they do not holistically describe the nature of the IAF's change. For example, the IAF's change is not a normal or predictable process of development in its life cycle. The change was initiated because of a chain of events (i.e. accounting and corporate fraud scandals) that served as triggers.

Evolutionary process theories can be characterized as survival of the fittest (Hannan and Freeman 1977). Thus, there are a number of changes in the environment that place stress on the organism and the organization. Since there are limited resources, organisms and organizations must compete for those resources in order to survive and thrive in the environment. This implies that organisms and organizations need to be flexible and adaptable to be successful or they will be selected out (Hannan and Freeman 1977). Natural selection is an applicable theory because of the trait of adaptability. Organizations and organisms that are able to adapt to the

environment will survive, and those that do not adapt are selected out. Thus, the IAF can demonstrate its ability to adapt by using its expertise to respond to the changing needs of the organization like compliance and other corporate governance responsibilities. Institutional theory represents another relevant evolutionary process theory because it shows how management accounting practices have the power to influence and be influenced by the institution that governs it (Burns and Scapens 2000). Burns and Scapens (2000) point out that, "the role of rules and routines play a key role in the outcomes and interactions of the organization." SOX is an example of the rule that has influenced the organization and the IAF. As a result, the organization had to modify its governance rules and routines to accommodate the change. Finally, punctuated equilibrium theory is an applicable theory for describing the evolution that took place in the IAF and the organization. Punctuated equilibrium theory says that there are revolutionary shocks or triggers that disturb the current equilibrium (Eldredge and Gould 1972; Gersick 1991). As a result of the revolutionary changes, a new steady state is formed (Gould 1989; Gersick 1991). Punctuated equilibrium theory can be used to explain the change in the IAF as a consequence of SOX. For example, a significant number of corporate accounting and fraud scandals represent the shocks or triggers that spawned fundamental changes in financial reporting and corporate governance in the form of the SOX Act. SOX was designed to ensure greater accountability, reliability and transparency in financial reporting and disclosures, changing to a new steady state in corporate governance. As a result, it caused major changes in the IAF's scope of duties and obligations, thereby changing its role in the organization. Evolutionary process theories like natural selection, institutional theory and punctuated equilibrium theory are well suited for describing the nature of organizational change in the IAF because it provides a foundation for understanding how and why the change occurred.

For example, the change in the IAF occurred because of accounting and corporate fraud scandals that disrupted the current state of corporate governance; this change was not gradual, it was revolutionary and episodic. Moreover, SOX is considered a major management accounting change in terms of routines, habits and practices that established a new equilibrium. In brief, all of the elements of organizational change in the IAF are congruent with the evolutionary motor.

Dialectical process theories are relevant for studying organizational change because it shows how external forces in the environment can create instability in the current mode of operation. These competing forces, which can be internal or external, have the power to shift the balance of power and control in the organization. There must be at least two or more entities competing for power and/or position. Whichever entity is successful is able to shift the balance of power and command control. Conflict theory emerges as a potential theory to explore organizational change because of the conflict between opposing forces. For many public companies, the conflict between responsible and transparent financial reporting came to a head as a result of accounting and corporate fraud scandals. Congress passed the SOX Act to address the problem. This act changed the status quo and forced companies to act differently. Conflict theory can be used to explain how the power shifted from the accounting profession to the Public Company and Public Accounting Oversight Board. Another useful dialectical process theory is what John Child refers to as the "Dominant Coalition". The Dominant Coalition concept demonstrates how the IAF emerged as the dominant coalition in the organization because of its expertise in risk assessment, risk management and internal controls. Thus, this knowledge allowed the IAF to influence decisions made to comply with SOX and other corporate governance responsibilities. Although certain aspects of dialectical theories relate to the outcome of organizational change in the IAF, they do not adequately describe why and how the

change occurred in the IAF. There was no power struggle between competing factions. There was a chain of events that unfolded that prompted action in the form of regulation because of the inherent weaknesses in the current corporate governance system. Therefore, dialectical process theories would not be the best lens to evaluate the nature of organizational change in the IAF.

Teleological theories are influenced by some distinct purpose or objective that seeks to change or modify behavior in the organization. Van de Ven and Poole (1995) state that, "according to teleology, development of an organizational entity proceeds toward a goal or an end state." For the purposes of this study, we extend Van de Ven and Poole's definition of the Teleological Motor to include the functional aspects of a behavioral response/outcome. In this context, regulation like SOX represents an external event that triggered a behavioral response in many organizations. As a result, organizations may be inclined to alter its strategy or goal. Regulations have some sort of planned goal such as discouraging behavior, providing protection and/or establishing some clear rules and guidelines about how things should be done organizationally and/or socially. An example of that change would be the passage of the SOX Act. Because of the accounting and fraud scandals and the inadequacy of the current corporate governance system, congress passed the SOX Act to address the issues of reliability, accountability and transparency of financial reporting. This direct action is designed to provoke a desired outcome in the entity or organization. The unanticipated consequences of purposive social action are representative of a teleological theory that explains organizational change as a result of planned direct action. But, the theory goes on to further explain that there are unanticipated consequences of direct action that may be positive or negative. For example, congress passed the SOX Act as direct action to correct or address a specific problem with financial reporting. This theory can be used to explain how an unintended consequence of the

SOX Act thrust the IAF into a new role by serving as a strategic partner, advisor and change agent. This result is considered a positive unintended consequence of direct action. Another teleological process theory that is helpful in explaining organizational change is exploration versus exploitation. This theory focuses on reorganizing structures and realigning resources to meet new business challenges and position the organization for growth. One can hypothesize that the IAF can take on the role of an explorer by providing strategic advice to the organization on how to meet new business challenges and opportunities. Conversely, one can hypothesize that the IAF can take on the role of an exploiter by making process improvement recommendations and working with senior management and the audit committee to help the organization do what it needs to be more successful. For example, the IAF can add value by collaborating and sharing expertise with other groups like operational risk and compliance groups. Additionally, the IAF can assist the organization in testing internal controls and assessing the risk profile of the organization. Innovation theory is useful in studying organizational change because it focuses on process improvement and simplification, which can lead to process effectiveness and efficiency. Thus, innovation can represent a number of different things such as product changes, modification, adaptation and growth. The IAF's ability to partner with operations to embed internal controls in processes demonstrates how it can help the organization achieve operational effectiveness and efficiency, which is an example of process innovation. SOX is an example of externally-induced innovation because it shows how regulation can be a catalyst for transforming the IAF from its role of scorekeeper and watchdog to business partner and change agent. Lastly, SOX was legislation enacted into law by congress. Laws are designed to modify or correct behavior. Consequently, laws can influence and dramatically change the behavior of organizations in new ways such as marshalling resources to

ensure compliance and creating new processes, procedures and ways of operating. Teleological process theories- using our extended definition- are well suited for describing the nature of organizational change because they explain how an external event like SOX (corporate governance regulation) can trigger change in an organization and/or subset of the organization, including the IAF.

Weick and Quinn (1999) provide us with a theoretical framework for Episodic and Continuous Change Processes. While Van de Ven and Poole's framework emphasizes two distinct characteristics: the unit of change and the mode of change, Weick and Quinn's (1999) framework focus on the rate and the cadence of change (See Table 2). The two frameworks are conjoined by the evolutionary motor; this is the link that binds them together. It is an analytical framework that consists of three major components: inertia, the change trigger and replacement.

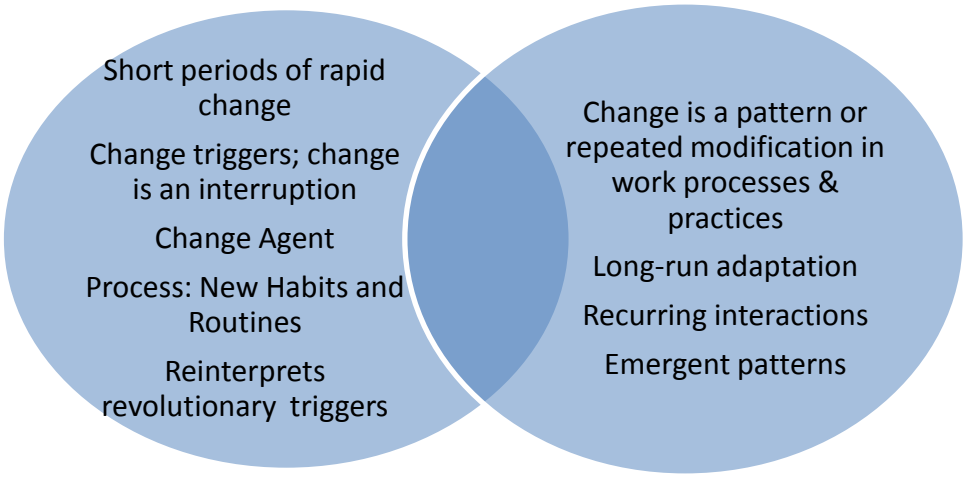
Table 2 shows Weick and Quinn's (1999) Analytical Framework on Organizational Change

	Episodic Change	**Continuous Change**
Metaphor of the Organization	Organizations are inert and change is discontinuous and infrequent	Organizations are emergent and change is constant, evolving and cumulative
Analytical Framework	Change is an interruption or divergence from equilibrium; externally driven	Change is a pattern or repeated modifications in work processes and practice; change is driven by organizational instability and alert reactions to regular contingencies
	Perspective: macro, distant, global	Perspective: micro, local, close
	Emphasis: short-run adaptation	Emphasis: long-run adaptation
	Key Concepts: inertia, deep structure of interrelated parts, triggering, replacement and substitution, discontinuity and revolution	Key Concepts: recurring interactions, emergent patterns, translation and learning
Role of Change Agent	Role: prime mover who creates change	Role: Sense maker who redirects change
	Process: focuses on inertia and seeks points of central leverage Changes meaning systems: communicates alternative schema, reinterprets revolutionary triggers, influences punctuation, builds coordination and commitment	Process: recognizes, reframes current patterns; shows how intentional change can be made at the margins; alters meaning by new language, dialogue, identity; unblocks improvisation, translation and learning

Figure 1 is a visual depiction of Weick and Quinn's (1999) Analytical Framework represented as Venn diagrams that overlap illustrating the commonalities between Episodic and Continuous Change. The overlapping area represents the evolution, adaptation and long periods of stability that take place. Following a period of punctuations that result in episodic changes, the organizations and/or organisms eventually revert back to gradualism.

Figure 1 – Illustrative Example of Weick and Quinn's Framework

Episodic Change versus Continuous Change



In Pfeffer's (1997) book entitled, "New Directions for Organization Theory", he defines inertia in the context of the organization. He states, "Inertia is the inability for organizations to change as rapidly as the environment." This inertia can be attributed to a number of factors such as high fixed costs (Hannan and Freeman 1984), organizational culture (Harrison and Caroll 1991), and new demands from the environment and etc. Gersick (1991) also states that this inability could be caused by deep structure. When organizations are inert, they are prisoners to a certain extent to the structures and processes that are a part of their modus operandi. Therefore, they continue to operate as usual until a change is triggered to overcome the forces of inertia.

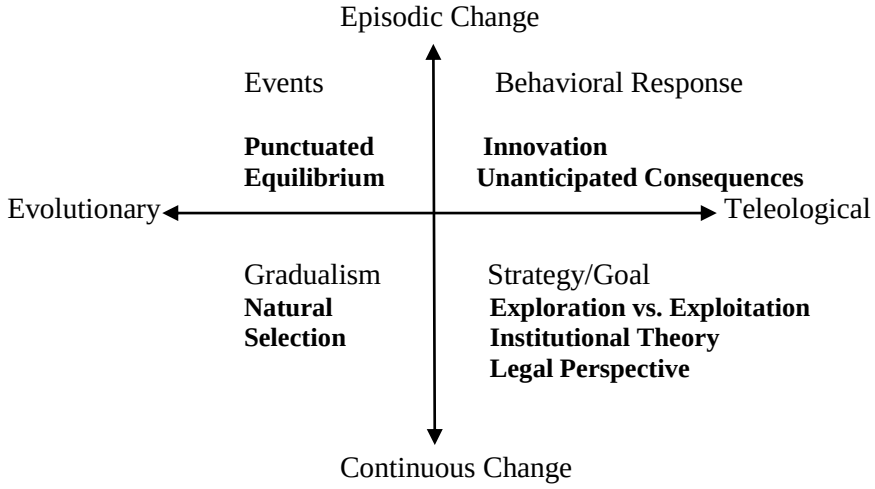
Change triggers have the power to overcome strong inertial forces. Huber et al (1993) indicate that, "Although inertia creates the tension that precedes episodic change, the actual triggers of change come from at least five sources: the environment, performance, characteristics of top managers, structure and strategy." They argued that these sources related to both internal

and external changes. An example of a change trigger is the string of accounting and corporate fraud scandals that led to the passage of the Sarbanes-Oxley Act of 2002.

Replacement in the context of the organizational change is reorganizing structures, modifying processes and developing new organizations to meet the needs and challenges of the organization. Since the scope and magnitude of the SOX Act was comprehensive, many organizations responded to this regulatory challenge by creating new, internal organizations such as operational risk and compliance (e.g. SOX, project, etc.) groups. Moreover, replacement can mean doing away with a traditional practice and establishing a new process to move the organization forward (Schumpeter 1934). Process improvement recommendations provided by the IAF are an example of replacement.

Based upon the combination of specific parts of Van de Ven and Poole (1995) and Weick and Quinn's (1999) Frameworks, a new theoretical framework emerges (See Figure 2 below). There are two dimensions to this framework. This new framework shows why certain theories were selected to explain the organizational change in the IAF that occurred as a result of SOX. The change that occurred is multi-layered because it can be classified into several categories.

Figure 2 shows Conceptual Model of Two-Tiered Organizational Change Framework



The first dimension is episodic versus continuous change. Episodic change represents a divergence from the status quo. Typically there are triggers that spur this type of change. For example, the terrorist attack of 9/11 was a major shock that completely disrupted our national security. From that day forward, the way the US government views and treats national security has changed dramatically; it was a revolutionary change. It is unlikely that the US will revert back to prior national security methods and approaches. To recap, there is typically a triggering event that leads to a behavioral response or outcome. In contrast, continuous change is really the polar opposite in that change is seen in small increments over time. Thus, change is viewed as repeated modifications and emergent patterns. For example, if a person decides to become a pilot, then it is necessary for him/her to log a certain number of flight hours to be fully licensed as a pilot. In addition, flight simulators are used as a training tool to improve skills and give the candidate repeated interactions and scenarios, which will enhance learning and improve performance. Episodic change and continuous change are similar in that both are considered evolutionary. Episodic change is infrequent in occurrence, but it engenders major, fundamental change; this type of change is typically unplanned. Continuous change tends to happen gradually in increments over time. It can be directed toward a specific goal or strategy. Continuous change can be planned or unplanned. From the schematic (Figure 2), we see that change can be both episodic and continuous, and it can be categorized as evolutionary or teleological. Hence, there is a relationship that exists between the two dimensions. We can begin to evaluate the essence of this change relationship by analyzing the categories, which are depicted as quadrants using the dimensions. Each quadrant has a specific descriptor that characterizes the phenomenon associated with the change.

Quadrant 1 uses the descriptor of "events". It is bounded by evolutionary and episodic change. Events serve as a catalyst or source of change. A well-suited theory that embodies the concept of a change trigger is punctuated equilibrium theory; this theory was selected because it is useful for explaining the change in corporate governance pre and post SOX. The accounting and corporate fraud scandals represent the episodic change triggers that forced revolutionary changes in corporate governance and evolutionary changes in the IAF. This reform established a new equilibrium in corporate governance.

Quadrant 2 uses the descriptor of "response". In other words, what is the outcome or reaction? This category is bounded by teleological and episodic change. When change occurs-planned or unplanned, there is typically a behavioral response from the organization, which can result in unintended consequences like an innovation. Thus, we selected the unintended consequences of purposive social action and innovation theories to explain how a planned change like SOX inspired externally-induced innovation in the IAF, which was an unintended consequence of legislation. In this case, it was the teleological driving the evolutionary, episodic change in the IAF.

Quadrant 3 uses the descriptor of goal/strategy; it is bounded by teleological and continuous change. We selected exploration versus exploitation, institutional theory and the legal perspective theories because they represent the area covered by teleological and continuous change. If an organization makes a decision to set its strategy to become a low-cost manufacturer, it is considered an exploiter. If a firm decides to enter a new line of business which is different from past or current business, then it has made plans to become an explorer. Regardless of what strategy a firm employs, the process is unlikely to happen overnight. In most cases, the strategy or goal will take place continuously over time. The common link here is that

it is a planned change. Institutional theory is another example of a theory used to explain the change because it relates to the institutionalization of new rules, habits and/or routines, which relate to continuous change. From a legal perspective, laws are passed to modify or correct behavior; therefore, they are planned changes designed for a specific purpose. Thus, teleological theories along with continuous change theories are suitable for explaining how an external event like SOX (a law) can have an impact on the IAF.

Quadrant 4 uses the descriptor of "gradualism". This category is bounded by evolutionary and continuous change. Gradualism is an evolutionary concept that explains change as a gradual process or change in small increments over time. By its very nature, gradualism is linked to continuous change. Therefore, as environmental stresses occur, organisms and organizations will adapt or become selected out. If organisms and organizations are adaptable, then they have the capacity to change continuously. If they do not, their survival is threatened. Gradualism is important because it describes the state of corporate governance prior to SOX. Change in corporate governance was incremental over time. However, SOX (corporate governance legislation) ushered in a new era of reform. Organizations-that were not able to adapt (from a compliance perspective which includes staffing and other costs)-were selected out by going out of business or becoming privately held. Therefore, natural selection is a suitable theory to describe a portion of the change in organizations and the IAF as a result of legislation (environmental stress).

In brief, this new, two-tiered theoretical framework gives us an opportunity to derive a deeper understanding of the nature of organizational change in the IAF by examining the dimensions of episodic versus continuous change and evolutionary versus teleological motors. This framework should allow us to extract rich insights from the case analysis about how a chain

of events can prompt a behavioral response, which gives rise to the transformative change in the IAF (See Figure 3).

Figure 3 shows a diagram of how chain of events caused a change in the IAF.

III.I PUNCTUATED EQUILIBRIUM THEORY

Punctuated equilibrium in social theory is a derivative of the biological theory of punctuated equilibrium theory used to explain the inconsistencies in the fossil record by paleontologists Stephen Gould and Niles Eldredge (Eldredge & Gould 1972; Gould: 1989). The Punctuated Equilibrium Theory is a slight deviation from the traditional, measured model of evolutionary change. This theory asserts that there is some major event or stressor that has caused a metamorphosis (Gersick 1991). Punctuated equilibrium theory suggests that organizations go through gradual, incremental changes over time until a major event (revolutionary or radical in nature) or occurrence disturbs the equilibrium of processes, thereby

causing a transformation and the emergence of a new steady state (Romanelli and Tushman 1994). Ruse (1989), states that, "punctuated equilibrium theory accounts for the major changes that lead to a new steady state." Further, the benefit derived from using this theory is that it provides researchers with a model to predict and explain the changes that result in organizational transformation (Romanelli and Tushman 1994). Romanelli and Tushman posit that, "organizational activities must undergo major shocks and radical change to escape the stronghold of inertia." Thus, the organizational response to transformational change may flush out the adaptive instinct of organizations by allowing it to leverage their competencies to function in the new steady state (Romanelli and Tushman 1994).

III.II THE UNANTICIPATED CONSEQUENCES OF PURPOSIVE SOCIAL ACTION

According to the theory of unanticipated consequences of purposive social action, there is a consequence for every action taken. Quite often actions are taken to address a specific need or problem that requires attention (Merton 1936; Clark 2005). However, when direct action is undertaken for a specific purpose, there is an expected result. In many instances, actions taken do not always yield the expected result. In fact, these actions can yield consequences that were not foreseen or anticipated. The unanticipated results can be negative or positive. Merton (1936) points out that, "Unforeseen consequences should not always be identified with consequences which are necessarily undesirable." Thus, the positive aspects of the unanticipated consequences of purposive action can unearth new possibilities and paths of direction to explore.

III.III INSTITUTIONAL THEORY

Institutional theory is comprised of three key components: new institutional economics, old institutional economics and new institutional sociology (Burns and Scapens 2000). To study organizational change as a result of regulation, it is more practical to focus on old institutional

economics (OIE) because it relates to organizational routines like management accounting changes and practices (Burns and Scapens 2000). Scapens (1994) states that, "rules and routines are the organizational equivalents of genes in the biological process and, in this sense; evolution is not the creation of optimal behavior, but merely the reproduction and possible adaptation of behaviors over time." Routines are the results of formalized institutional behaviors that are directed by rules; therefore, when accounting practices become institutionalized routines, the members of the organization accept their roles in the organizational process of decision making (Guerro et al. 2006). Nelson and Winter (1982) posit that organizational routines and practices provide a foundation for organizational knowledge and influences decision making. Further, Guerro et al. (2006) states that, "rules and routines provide an 'organizational memory' and constitute the basis for the evolution of organizational behavior." A management accounting change like the SOX Act has the ability to create new routines, roles and processes for people in organizations (Burns and Scapens 2000). New institutional norms bring about differences in power structures that both delegitimize existing standards and usher in new standards and routines that determine policies and procedures; therefore, the implementation of new institutional norms lead to the creation of new structures and processes (Dacin et al. 2002). As these new processes and routines become more widely adopted, they become institutionalized. Burns and Scapens (2000) argue that detailed changes in management accounting can be viewed as a radical departure from existing routines, thereby fundamentally challenging the institution that governs itself.

OIE breaks down the organizational change in three ways: formal versus informal, revolutionary versus evolutionary and regressive versus progressive. Formal changes are the result of direct action. For example, the passage of laws or new requirements mandated by

organizations and regulatory authorities constitute formal changes. But, in the process of implementing formal changes, there are informal changes that can impact the culture, beliefs, operating philosophy and the way people in the organization interact with one another. Burns and Scapens (2000) compare and contrast formal and informal change with intentional and unintentional management accounting changes by stating that, "change which flows from the introduction of new rules is considered intentional change and change which occurs at a more tacit, subconscious level is considered unintentional change." They go on to point out that, "the processes of management accounting changes are more likely to include both intended and unintended elements", which is consistent with the view of many researchers' assertion that organizational change is a composite of both formal and informal, changes (Soin et al. 2002).

Revolutionary change constitutes a major change to the current modus operandi, but evolutionary change is gradual and does not cause a significant shift in organizational routines and practices (Burns and Scapens 2000). Although intentional change in management accounting practices and routines by itself may not be considered revolutionary, an unintentional change in informal processes could be revolutionary because it challenges existing institutions (Burns and Scapens 2000). Thus, SOX can be viewed as an intended change, but the IAF's change in roles and responsibilities can be considered revolutionary. An example of an evolutionary change would be the IAF's growth as a mere error checking function to a consultant and advisor to senior management. Thus, organizations experience revolutionary and evolutionary changes as part of the environmental conditions in which it operates.

Progressive change can add value to the organization through new techniques and methodologies. For example, if the IAF works with operations to implement process improvement recommendations, the success of its efforts can make the organization effective

and efficient. This type of progressive change can yield long term benefits. Regressive change does not improve or add value to the organization. Opponents of the SOX Act argue that this regulation causes organizations to incur major resource costs that do not provide a reasonable cost benefit to the organization or it shareholders. In brief, it is beneficial for organizations to manage progressive change in a way that adds value and mitigates the impact of regressive change.

III.IV SYSTEMS THEORY

Systems theory is used as a lens to describe and predict the behavior of organizations. Organizations are considered complex systems (Rubin 2005). March and Simon (1958) state that, "organizations are systems of coordinated action among individuals and groups whose preferences, information, interests or knowledge differ." Therefore, as organizations encounter environmental conditions, their behavior will change accordingly. A typical response may cause organizations to modify their structures and processes to reach a new stable equilibrium (Rubin 2005). This modification can take place by autopoiesis and self-organizing systems.

III.IV.i AUTOPOIESIS

Chilean biologists Humberto Maturana and Francisco Varela coined the term autopoiesis to describe how organizations are able to reproduce themselves without losing the key elements it was initially comprised of (Manturana and Varela 1980). Manturana and Varela (1980) state that, "the main purpose of the theory of autopoietic systems is to provide a model that allows one to differentiate between living and nonliving systems." Luhmann (1995) was inspired by Manturana and Varela's work regarding cell reproduction. From this idea, he was able to use characteristics of a cell to draw key insights about the study of social phenomena. This concept is a fundamental tenet of his work (Elder-Vass 2007). Luhmann's radical, groundbreaking approach brought about a convergence of both the physical and the metaphysical worlds

(Viskovatoff 1999). Luhmann (1995) posits that, "autopoietic systems produce and change their own structures, and everything that is used as a unit by the system is produced as a unit by the system itself." If systems have the ability to reproduce themselves, then they are self-referential systems as well. Self-referential systems are equivalent to autopoietic systems because its key characteristics remain a part of the reproductive process (Luhhmann 1995). Thus, as part of the transformation process, systems reproduce themselves by retaining the key aspects that are a part of the original composition

III.IV.ii SELF-ORGANIZING SYSTEMS

A self-organizing system is a process that uses rules and information to determine the configuration and development of patterns and interactions (Camazine 2001). Organizations and human being are examples of self-organizing systems. Based on the governing rules and information, new patterns will emerge. Ashby (1962) points out that, "it is logical to assume that the parts and components of a system work together for a common goal or objective." Systems are also comprised of functions that perform an action. To perform an action, the function must communicate and coordinate with the other functions of the system to work as designed (Ashby 1962). This feature is referred to as conditionality. Ashby (1962) states that, "when there is communication and coordination of the parts, then they are considered organized and self-connected." Conversely, if the parts and/or components do not possess this communication, they are deemed to be disorganized (Ashby 1962). In brief, self-organizing systems have the ability to develop new patterns based on their interactions if they are organized and self-connected.

III.V INNOVATION THEORY

Innovation entails developing a new device, methodology, modification, product or process that makes an improvement. The concept of innovation engenders thoughts of creativity,

and there is insurmountable evidence that proves it is a critical part of innovation. Therefore, one could argue that the line between creativity and innovation is blurred, but Davila (2006) provides us with a succinct definition to help us make the distinction. He states that, "the words creativity and innovation are often used interchangeably, but they should not be because there is a difference. While creativity implies coming up with new ideas, it is bringing ideas to life that makes innovation the distinct undertaking that it is." There are a number of sources of innovation. Particularly the research and development teams of organizations are commonly associated with innovation. It can be inspired from ordinary and practical experiences in everyday life. Innovation can arise when individuals in an organization see an opportunity to do things differently. For example, migrating from a manual accounting system to enterprise resource planning system is an innovation. The transition from a corded phone to a cordless phone is another example of an innovation. If a need is not being addressed and/or a process consumes time and resources for a small benefit, then these circumstances provide favorable conditions for innovation to occur (Von Hippel 2005). The point is that innovation does not always have to come from traditional sources. Many different sources of activities can bring about innovation. The adverse impact of major disruptions can motivate organizations to implement new programs and methodologies (Schon 1971; Poole & Van de Ven 2000). A key example of such a stimulant is externally-induced innovation as a result of government regulation. The government will pass regulation to correct or address an issue caused by a crisis or a negative chain of events (Marcus & Weber 2000). March and Simon (1958) indicate that, most innovation is external because it arises out of need not opportunity." The impact of externally-induced innovation can transform people, processes and organizations (Marcus and Weber 2000; Roberts and King 2000). Although innovation is normally considered a positive

endeavor, it can have negative consequences by rendering traditional organizational forms or practices obsolete, which can put some groups at a disadvantage (Schumpeter 1934). Schumpeter (1934) goes on to note that, "innovation is viewed as creative destruction because it is forward looking by opening up new market opportunities for those who are able to adjust quickly." Organizations can achieve and sustain a competitive advantage if they are able to link innovation with their goals and objectives (Porter 1990). Innovation can also be viewed as a behavioral mindset. As organizations look for ways to stand out and differentiate themselves, they must have a creative and innovative posture that will not allow them to rest on the laurels of past achievement. In a real sense, innovation is about taking risks to reach the next level. In fact, Dr. Jacqueline Byrd understands the components of innovation very well; she is the co-author of a book entitled "The Innovation Equation". Dr. Byrd developed the innovation equation: Innovation = Creativity * Risk Taking. This equation delineates the relationship between risk taking and creativity graphically (Byrd 2003). Thus, innovation is a journey that can be fraught with obstacles and challenges, but the end result makes it worthwhile. 3M is a prime example of taking innovative risks as evidenced by the evolution of its adhesive, which led to the post-it note (Ring and Rands 2000).

In brief, innovation has the power to transform the world, and it can enable an organization to grow and achieve a competitive advantage in the marketplace.

III.VI EXPLORATION VS. EXPLOITATION

One way to understand the behavior of organizations is to analyze their strategy. James March (1991) provides powerful insight about the strategy and behavior of organizations in the context of the environment. In many ways, this framework is seen as an adaptive response strategy in the life cycle of the firm. At a particular point in time, one could argue that

businesses can be classified as an explorer or an exploiter or both. What does this strategy really mean? If a firm is considered an explorer, it is more likely than not that the firm's activities involve innovation and risk taking to develop and offer new products and services. Examples of explorer activities would be research and development and expansion into new and emerging markets. The explorer firm takes on the characteristics of a prospector strategy (Miles, Snow, Meyer and Coleman 1978). Moreover, exploration is about conquering unchartered territory such as establishing a new market or experimenting with new ideas and ways of doing things (Baum et al 2000). It could also mean reorganizing structures and realigning resources to meet new business challenges**.** If a firm is considered an exploiter, then the firm tends to focus on existing core competencies and niches. For example, an exploiter may search for ways to improve efficiencies, streamline costs and eliminate non-value added activities (March 1991). Thus, businesses select and execute the strategies that have worked successfully. Cyert and March (1963) state that, "companies tend to search for solutions in the neighborhood of current practices and routines." In other words, businesses assume a defender strategy by maintaining the status quo and protecting their fiefdom (Miles, Snow, Meyer and Coleman 1978). Regardless of which strategy a firm pursues, evolution plays an instrumental role in the viability of the business. Exploration and exploitation are inextricably linked because both types of strategies are needed for survival and growth. The Exploration vs. Exploitation Framework can be segmented into two views: long term and short term. On the one hand, exploration can be viewed as long term strategy representing the future direction and sustainability of the firm. On the other hand, exploitation can be associated with the "urgency of now" mentality. In other words, what does the firm need to do now to compete successfully in the short term? If the firm has a viable strategy, it will be able set aside resources to devote to exploration activities.

Needless to say, firms must be strategic stewards by managing their resources in an effective and efficient way to compete and survive today and in the future. According to Winter 1971, Levinthal and March 1981, "the inherent problem of balancing exploration and exploitation is exhibited in distinctions made between refinement of an existing technology and invention of a new one." Clearly, organizations will have to determine what the appropriate balance should be as they allocate resources to these activities. The impact of what they decide could make the difference between success and failure.

III.VII NATURAL SELECTION: THE ECOLOGICAL PERSPECTIVE

As stated before, organizations share key similarities with organisms in how they react to forces in nature. Therefore, the use of ecological models is quite common in this type of inquiry and investigation. To understand organizations from an ecological perspective, we can view them in terms of selection and adaptation (Hannan and Freeman 1977). From the viewpoint of selection, organizations like organisms must compete for resources, and those organizations that are successful will perpetuate their existence (Zachariah 1971). Simply put, this is survival of the fittest. Aldrich and Pfeffer (1976) suggest that, "As a model of organizational change, the selection of social structures is accomplished by differential survival of structural forms." Thus, those organizations that already possess the structural design and key characteristics to meet environmental challenges will survive, and those who do not will perish. Conversely, the adaptation perspective points out those organizations will assess the environment and make the necessary structural adjustments as appropriate (Hannan and Freeman 1977). Many ecological theorists have stated that internal structures and external pressures have caused organizations to be inert, thereby limiting their capacity to change (Hannan and Freeman 1977; Singh and

Lumsden 1990). Therefore, flexibility and adaptability are the essential traits that organizations need to respond to environmental challenges and seize opportunities.

III.VIII CONFLICT THEORY

Conflict theory is based on the notion of competing external or internal forces that occur in society. Conflict arises because there is a lack of agreement between opposing forces based on some social issue or position. Dahrendorf (1958) argues that in order for conflict theory to be viable in a structural context it must address three questions: How do opposing factions emerge from societal structures? What are the various patterns of struggle that the group takes on? How does conflict within these groups bring about change in social structures? First, he suggests that conflict can arise from individuals in society who interact with one another in social organizations (e.g. workplace, social club, citizenry of a city, state or government and etc.), but their interests may differ due to inconsistent values, beliefs and/or perceived or real inequity. Secondly, there can be different patterns of struggle such as equal rights and pay, civil rights (voting, fair housing standards, gun laws etc) and gerrymandering and redistricting for additional resources. Thirdly, conflict can stir people up to protest and challenge unconscionable laws and conditions that discriminate against specific groups. Conflict has the power to prompt legislative action like the SOX Act of 2002. Dahrendorf (1958) states that, "no theory of social change or of conflict can forego the description of the structural entity which undergoes change or within which conflict occurs." SOX legislation is known for altering the structures of many organizations by requiring them to marshal resources to address regulatory concerns. As a result, sometimes conflict is needed to bring about progressive change. For example, conflicts about minimum wage and the number of hours in the standard workweek led to legislation such as the Fair Labor Standards Act of 1938 to address workers' rights. Conflict can shift the

balance of power dominance and authority. Therefore, conflict has the ability to influence and/or modify change in organizations.

III.IX DOMINANT COALITION

The dominant coalition theory refers to people in the organization that have the power to make strategic decisions. Child (1972) points out that the dominant coalition does not necessarily refer to those individuals who have formal line authority, but it refers to those individuals who have significant power over a certain timeframe or set of circumstances; this concept makes it possible to contrast the difference between those who normally wield power versus those who are most likely subject to that power. Child (1972) makes the argument that the environment is a key factor that undergirds the dominant coalition concept. The environment can have a major impact on the dominant coalition because of the various stimuli that organizations are exposed to. These stimuli can spark structural change by forcing the organization to tap into its adaptive instinct. Depending on the environmental pressures, the expertise or resources needed to address concerns may not rest with traditional authority figures and structures. As a result, the dominant coalition may shift to another group, thereby redistributing the balance of power. According to Bacharach et al (1980), those individuals that are a part of the dominant coalition derive their power from a number of sources: authority, coercion, charisma, expertise, information, reward and sanctions to influence decisions. With this concept, it is possible to view a shift in the distribution of power as it relates to strategic decision making. From an organizational perspective, senior management is typically charged with making strategic decisions under normal circumstances. But, there are instances where senior management might not be the dominant coalition. For example, when regulation such as the SOX Act was passed, senior management in most cases is more likely to rely on the expertise

of the IAF to help the organization become compliant. Moreover, as firms conduct business globally, it is imperative that organizations take action to protect information data security from cyber security threats.

III.X THE LEGAL PERSPECTIVE

Although the organization is viewed as a single entity in many instances, it is really a constellation of contracts through which many relationships are formally defined and organized (Rubin 2005). A corporation is an illustrative example of such an organization. These contractual relationships provide a basis for understanding why an organization behaves in a certain manner (Rubin 2005). When decisions are made about resources by individuals other than those who own the resources, it adds complexity to organizations. To illustrate this dilemma, we use shareholders and management as examples. Hence, an agency relationship emerges because management has a fiduciary responsibility to act in the best interests of the shareholders. Since management is more closely involved with the day to day operations of the organizations, management is normally assumed to have precise details about ongoing operations. Thus, shareholders can only act on the information that is received from management. As a result, the principals' (shareholders) ability to monitor the actions of agents (management) could be hindered by receiving incomplete and/or filtered information because they are detached from the operations. Principals can only act and react to the information made available to them. Therefore, a benefit of having an independent internal audit function is that it can help principals overcome the information asymmetry problem and monitor the activities of agents (Adams 1994).

As organizations operate and conduct business, they are subject to a number of environmental influences and challenges that have an impact on the organization. Regulation

represents a legal challenge that can strain an organization's resources by imposing costs in the form of penalties and taxes for noncompliance. Today, organizations are besieged by laws and regulations because of the past actions of organizations acting in a way that caused harm or detriment. Edelman and Suchman (1997) state that, "much regulation grows out of organizations' actions and agendas." Therefore, when organizations act in a contrary or unethical way, regulation is used as a tool to change behavior. According to Edelman and Suchman (1997), "regulation is taking the initiative directly to modify organizational behavior." The government can modify behavior by requiring organizations to act in a certain way or creating incentives to change behavior (Rubin 2005). Marshaw (1979) argues that the law may be instrumental in altering behavior, but it may create openings and opportunities for organizations to circumvent the law and exploit its deficiencies. Therefore, as organizations conduct business they will have to incorporate environmental challenges such as regulation as a normal part of the operating landscape.

CHAPTER IV: RESEARCH QUESTIONS

The intent of this research is to inform companies that the internal audit function has a greater utility and can significantly contribute to corporate governance. This research will explore the progression of the internal audit function from its traditional roles of due diligence to consultant and business partner. To date, scant research (if any) exists to explain this phenomenon. In order to accomplish this objective, the research will be centered on the following research questions.

RQ1: As a result of SOX, how has the role of the internal audit function changed (i.e. people, processes, procedures and structures) in the organization?

RQ2: In what ways does the internal audit function add value to the organization post SOX?

RQ2A: How does the role of the internal audit function contribute to the organization's strategic goals and objectives?

RQ2B: Why is the internal auditor's expertise valuable to the organization?

RQ2C: How has senior management leveraged the resources of the internal audit function to address corporate governance responsibilities?

RQ3: How can internal audit experience help individuals achieve leadership positions of increasing responsibility?

CHAPTER V: METHODOLOGY

This section presents the research methodology employed. More specifically, we will describe the paradigm under which this research falls, the research design, the data collection procedures, and the data analysis procedures. A discussion of the criteria used for evaluating the resulting theory closes this section.

V.I RESEARCH PARADIGM

The research paradigm represents a framework that is used to interpret phenomena and how reality is constructed in the world (Burrell and Morgan 1979). It is a philosophy of science that seeks to extract truth by gathering data that will allow the researcher to answer the research questions (Dill and Romiszowski 1997; Kuhn 1970). The data will allow the researchers to confirm, reject and/or discover new insights about phenomena.

Today, there are three popular research paradigms: positivism, interpretivism and critical realism. These research paradigms allow the researcher to search for truth from different perspectives. From the positivist perspective, reality is measured in concrete, verifiable terms that are consistent with the laws of nature (Orlinkowski and Baroudi 1991). In other words, positivists see the world in clear terms like a mathematical equation. The interpretivist perspective sees reality as a function of context (Berger and Luckman 1967) Context is an important factor used to analyze social phenomena (Cicourel 1964). Therefore, the interpretivist paradigm delves deeper beyond the surface to find meaning. Critical realism is a perspective that critiques the status quo based on a moral or ethical stance (Myers 2009, Mingers 2000). Each of these methodologies make a significant contribution to vet out the truth, but we believe the interpretivist philosophy yields the greatest insight because it is more appropriate for explaining

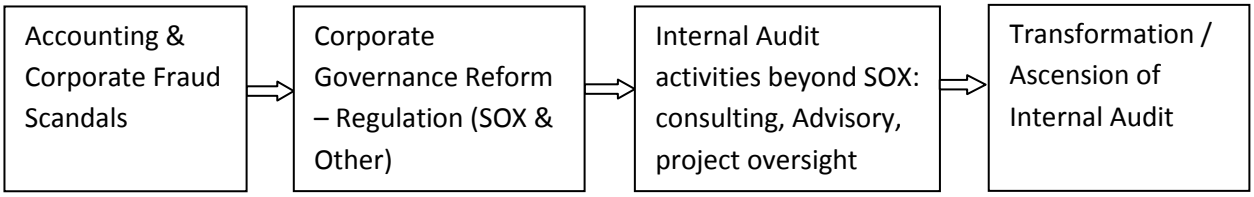
how and why the impact of legislation on the organization spawned dramatic organizational change.

V.II RESEARCH DESIGN

This study undertakes a case study approach to show how the internal audit's role has been transformed as a result of SOX Act of 2002. The intent of case study research in business is to obtain empirical evidence from analyzing the phenomenon in its natural environment, while contributing to the body of knowledge (Myers 2009). Yin (2009) states that, "a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident." Yin (2009) points out that the case study makes an attempt to pull together the real story by reconstructing the pieces of a puzzle. If the researcher is successful in assembling the pieces of the puzzle, then he is sometimes able uncover novel findings that will inform both theory and practice. Therefore, this study has selected this method because it gives an opportunity to explore the heart of this change, while obtaining rich insights from key people in the internal audit function. This approach is consistent with the design and evaluation methodology of the engaged scholarship model (Van de Ven 2007). The study believes that a multiple case study research design will provide a deep-seated perspective about the key paradigm shift in the internal audit function as result of SOX. The unit of analysis is the internal audit function in five organizations. In order to test the theory about how SOX has been a catalyst for transforming internal audit's role, this study will evaluate the case studies of five public companies to understand what type of changes were taking place in the internal audit function. We will follow Yin's (2009) recommendation and select at least five cases. From these five cases, the study hopes to gain tremendous insights about the nature of organizational change that led to the

process by which the internal audit function was transformed as a result of corporate governance legislation. In addition, the study will use a conceptual, evolutionary process model (See Figure 4), employing a single unitary progression to examine the progression of events that led to the transformation of the internal audit function (Van de Ven 2007).

Figure 4 Conceptual Process Model



This case study will explore and explain the change in organizational structure and strategy in the internal audit function (i.e. highlighting the contribution value of the internal audit function) as a result of SOX-corporate governance legislation-using the internal audit function as the unit of analysis.

V.II.i DATA ANALYSIS APPROACH

The primary method of data collection was semi-structured personal interviews (structured interview items and unstructured response possibilities) with Chief Audit Executives (CAEs) of internal audit functions of small, medium and large public companies, senior management officials, audit committee members and board members. Additionally, a snowball sampling strategy was also used to identify other individuals who could provide additional insights. The analytic strategy consisted of two phases. The first phase is the pre-analysis. All interviews will be transcribed as text for detailed analysis with the specialized software Nvivo. Field notes will also be summarized in short write-ups to be analyzed with Nvivo. In addition, for each interview and document, we will create a contact summary form and a document summary form (Miles and Huberman 1994). The purpose of these summary forms is to provide

an early synthesis of what has been discovered and what still needs to be done as well as important issues to render while collecting data. In the second phase, a coding scheme from the transcripts and field notes will be analyzed. The coding scheme will be finalized when the data collection is complete.

V.II.ii DATA COLLECTION AND ANALYSIS

The empirical analysis of this study is based largely upon interviews conducted on the internal audit functions of business firms located in the United States between June and August of 2012. There were eight total interviews conducted with Chief Audit Executives (CAEs), senior management executives and audit committee members from organizations that were primarily public, but a governmental entity and a privately held firm were included in the study as well. CAEs and senior management executives were chosen because of the complementary relationships they have with one another (i.e. one party providing the value and the other party receiving the value - if any). The purpose of diversifying the interview pool was to obtain a well-balanced assessment of the phenomenon taking place. The key objective of conducting interviews was to obtain rich insights about the evolutionary change taking place in the internal audit organizations of business firms today; this change represents a key paradigm shift from their traditional roles as scorekeepers and watchdogs to new roles as strategic business partners and change agents. Before the interviews began, each participant was sent a brief synopsis of the study, which included the background, purpose, confidentiality measures and the goal of the research investigation. Then, a case study protocol was developed to ensure that procedures would be followed completely and systematically (Yin 2009). In addition, actions were taken to ensure that the interviews followed the protocol mandated by the university's institutional review board (IRB), and permission to conduct the interview and digitally record it was obtained from

each of the interview participants along with their signed informed consent forms. Additionally, interview participants were reminded that participation in the study was purely voluntary, and they had the right to withdraw their participation at any time. The interviewees were also told that their anonymity would be maintained for them, the organizations they represent and the boards for which they serve. The interviews were semi-structured lasting approximately 60 to 75 minutes in duration. Interviewees were asked to provide a short introduction about them, including information about their educational training, careers and any other information they felt comfortable sharing. At the conclusion of each interview, participants were informed that they would receive a case study report summarizing the responses to the questions from all of the study's participants. After completion of all the interviews, a case study report was distributed to all who participated in the study. Participants were given an opportunity to provide feedback (i.e. comments, observations and/or suggestions) on the content and accuracy of the report. The feedback was used to clarify, validate and improve the quality of this research investigation. Each interview was transcribed word for word verbatim. I listened to the recordings two more times to ensure that the transcripts were complete and to fill in any holes left incomplete during my note taking. The transcripts were evaluated using the techniques and procedures recommended by Miles and Huberman 1994 as well as NVIVO 9 Qualitative Software. Part of the analysis included my handwritten notes taken during the course of the interviews. Initially, I conducted the first read-through of the transcripts and my notes. From the read-through, I developed some initial codes from my analysis of the text. In the next step, I used the same coding strategy in the NVIVO 9 Software. The codes were converted to nodes (i.e. specific categories). Then, the transcripts were imported into the software and coded to the nodes for additional analysis. The additional analysis also included archival data, information about the

organization in the public domain and other documentation provided by the study's participants. A case study database was used to store this information in a central place. In addition to the evidence obtained from the interviews, we also obtained other evidentiary documentation from press releases, the organizations' web site, annual reports, organization charts as well as other documentation, including the IA Charter and Corp Governance Directives provided by representatives from each organization. This information provided various sources of evidence used to triangulate the data and add validity to the statements, organizational initiatives and/or comments made during the course of the interview (Yin 2009).

The organizations represented a variety of different industries ranging from consumer products, manufacturing, services, power generation, telecommunications and technology (See table below).

Table 3

Interviewee	**Position/Title**	**Company Classification**	**Industry**
IP1	President, Audit Committee Member	Public (Org 1)	Conglomerate – Industrial Machinery, Energy, Communications etc.
IP2	Chief Audit Executive	Public (Org 2)	Consumer Products
IP3	Chief Audit Executive	Govt (Org 3)	Services
IP4	Chief Audit Executive	Private (Org 4)	Mfg; Consumer Products
IP5	Chief Audit Executive	Public (Org 5)	IT Services, Services, Retail, Logistics
IP6	Chief Audit Executive	Public (Org 6)	Power Generation, Energy, Utilities
IP7	Audit Committee Member	Public (Org 7)	Telecommunications, Technology
IP8	Chief Financial Officer	Public (Org 8)	Communications, Telecommunications

Organization 1 is a large cap (greater than $5 billion in revenue) firm that is a conglomerate in industries such as power generation, construction and industrial services. The company has over 100,000 employees and it is organized by key business divisions that align with the company's core strengths and operating niches.

Organization 2 is a large cap firm strategically positioned as a market leader in the consumer products industry with over a 100,000 employees. This company's management structure is decentralized and relies on its major operating divisions to meet the goals and objectives of the organization.

Organization 3 is a statewide, public university system under the auspices of the board of regents. In terms of revenues, it would be comparable to a medium cap ($1 billion to $5 billion in revenues) firm. The university system is charged with providing educational services statewide though its member institutions with approximately 40,000 employees.

Organization 4 is large cap, privately-held firm that is a major player in the manufacturing arena and the consumer products industry with approximately 60,000 employees. The company has several operating divisions that comprise its core businesses.

Organization 5 is a small cap ($250 million to $1 billion in revenues) firm that provides advisory and consulting services across a number of industries with approximately 1,700 employees. The company's clients are domestic and international.

Organization 6 is a large cap utility company that provides power and energy in the United States with over 26,000 employees. The mission is to provide reliable electricity to its customers while continuing to invest in new, technological and innovative energy options.

Organization 7 is a small cap technology firm that provides wireless communication technology and systems solution to a variety of clients domestically and internationally across various industries. The organization has about 1,500 employees.

Organization 8 is a large cap company that provides telecommunication, wireless and fiber optic capabilities and products all over the world. It has approximately 250,000 employees.

V.III APPLICATION OF THE THEORIES TO THE RESEARCH QUESTIONS

To determine if a theory is suitable for researching a phenomenon, it should meet certain criteria. Hernes (1976), Dahrendorf (1959), Coleman (1986) and Van de Ven and Poole (1988) have provided us with a set of standards and guidelines to use as a benchmark. They state that, "The theory should explain how structure and individual purposive action are linked. Secondly, the theory should explain how innovative change is produced by the internal functioning of the structure and the external purposive actions of individuals. Thirdly, the theory should explain both stability and instability." Punctuated Equilibrium Theory helps to explain how the corporate governance system existed in a state of equilibrium until a number of accounting and corporate fraud scandals rendered the corporate governance system ineffective. As a result, congress responded by passing the Sarbanes-Oxley Act (SOX) of 2002. This purposive social action was designed to enact reforms to address the current weaknesses in the current corporate governance system. Due to key provisions of SOX requiring the certification of controls around financial reporting, internal controls and disclosures, many companies turned to the internal audit function for assistance and guidance. Therefore the internal audit function's traditional role shifted from enforcing policies and procedures to conducting risk assessments and testing internal controls. Moreover, the internal audit function became a key part of the decision making body advising management on key issues such as risk management and corporate governance.

These changes represented a structural shift in the internal audit function's duties and responsibilities, thereby causing a transformation. Therefore, the unanticipated consequences of purposive social action theory provide a basis for us to understand how corporate governance legislation (i.e. SOX) impacted the organization, especially the internal audit function. Clearly, the occurrence of accounting and corporate fraud scandals at the start of the decade caused disruption and instability in the corporate governance system. Purposive social action in the form of regulation (i.e. SOX) was passed to create a new equilibrium. Although SOX mandated major changes that impacted the organization (including the internal audit function), it created an unanticipated consequence by transforming the internal audit function into a business partner and change agent.

V.IV RESEARCH SCHEDULE

Table 4

Activity	**Milestone**
Research Proposal Defense	April 2012
Data Collection and Analysis	June 2012 – October 2012
Write Dissertation	November 2012 – March 2013
Final Defense	March 2013

CHAPTER VI: RESULTS

The results from this study also revealed six key patterns or themes that emerged as major themes (See Table 5). The patterns were an effective internal audit function (IAF), risk, Enterprise Risk Management (ERM), incremental value, internal audit experience and leadership development. These patterns are evident in the study's findings to answer each research question that follows.

Effective Internal Audit Function
Risk
Enterprise Risk Management
Incremental Value
Internal Audit Experience
Leadership Development

Table 5

The two-tiered organizational framework provides an opportunity for us to evaluate the findings of each case from a two-dimensional perspective, and it explains how the IAF changed as a result of SOX. Historically, internal audit focused on making sure the company adhered to internal policies and procedures and other ancillary tasks that may or may not have been on the radar. According to Figure 2, the IAF and the organization was in quadrant 4, which is identified as the 'gradualism' category bounded by evolutionary and continuous change. Basically, change took place continuously in organizations and IAF but gradually over time. In this category, inertial forces make it difficult for radical change to occur. Therefore, it is necessary for some major force or event to occur that has the power to initiate change. A change trigger is necessary to initiate this type of change. The accounting and corporate fraud scandals of this new millennium represent the change triggers that prompted revolutionary change in corporate governance by passage of the SOX Act; this stage is represented by the 'events' category bounded by evolutionary and episodic change. Punctuated Equilibrium theory is an appropriate

theory to explain this change because it embodies the characteristics (i.e. change triggers) of the 'events' category, and it is a plausible theory to describe the change in corporate governance. SOX has ushered in a new era of heavy regulatory compliance because it was a behavioral response to the change triggers. The new environment has brought the internal audit function out of the background into the foreground. Senior management has been forced to recognize the importance of the internal audit function in implementing major corporate governance reforms. Now, senior management views the internal audit function as the key resource to coordinate and execute SOX activities and championing the cause of corporate governance. More importantly, management's perception of the internal audit function prior to SOX was that of a scorekeeper and watchdog. As senior management prepares to certify the internal controls in the financial statements, the internal audit function plays a vital role in helping management with its assessment of controls. Not to mention, internal audit is useful for helping the organization remediate deficient controls. There is no doubt that the internal audit function has risen to the occasion when it comes to navigating through the maze of corporate governance issues. However, the internal audit function is useful in so many other ways as well. Based on the two-tiered organizational framework, we are able to see that SOX elicited a behavioral response in the IAF. For example, the internal audit function has proven to be a trusted advisor in operations, risk management and other strategic business initiatives (Hespenheide 2005). These actions are consistent with the 'behavioral response' category because the IAF's new scope of activities and expanded role can be characterized as externally-induced innovation, which is an unanticipated consequence of purposive social action. When organizations think about growth and planning for the future, they have to consider the impact to the organization on so many levels. Fortunately for many organizations, there is a residual benefit from having the expertise

of the internal audit function as a resource. Therefore, in order to optimize the benefit, it suggests that the organizations must have an effective IAF, which is a consistent theme of the case findings. More importantly, the internal audit function can assume the role as a strategic business partner and provide consulting and risk management advice. Today, the internal audit function has come full circle. We can say without equivocation that the transformation of the internal audit function into the consulting arm of the business has truly been an evolutionary process. When you consider the parochial view of the internal audit function as being an impotent, support function that operated in the background, it is astounding to see the positive change. The internal audit function proved its mettle by stepping forward from virtual obscurity to leading the charge to improve corporate governance by taking on additional responsibilities by documenting controls, performing due diligence, remediating controls, testing entity-level controls (i.e. code of conduct, code of ethics) and providing recommendations to improve the internal control structure. Furthermore, the internal audit function adds value to senior management and the board by managing enterprise risks, enhancing operational effectiveness and efficiency and contributing subject matter expertise (Ernst & Young 2010). Not to mention, the internal audit function advises senior management on best practices, performs quality assurance and serves as an independent assessor of management testing and the assessment process (Schneider 2008). Therefore, we believe this study would make a contribution to theory and practice by highlighting the changing role of the internal audit function and its contribution to organizational value. Specifically, it would highlight some of the following areas where internal auditing can contribute valuable service to an organization. The study reveals how a strong internal auditing function can help the organization obtain and sustain a competitive advantage (Miles, Snow, Meyer and Coleman 1978; Porter 1990). Eric

Hespenheide (2005) indicates that, "an adequately structured internal audit function can add tremendous value to an organization by improving operational excellence as well as regulatory compliance. Thus, the business world has entered uncharted territory, and an optimally structured, high-performing internal audit function can help shepherd companies through this new terrain." As companies grow organically and/or inorganically, they need a business partner who knows the issues on the inside of the company and who has had experience tackling the issues on the outside of the company. The internal audit function is a logical choice for performing the due diligence needed to fully assess a future business investment opportunity. Furthermore, the internal audit function is so versatile because it can wear a number of hats. The internal audit function is seen as a key decision maker. Companies can benefit from using the internal audit function on the front end of new initiatives as opposed to the back end. Specifically, the internal audit function has demonstrated that it is useful in a crisis and helping management address regulatory concerns. As part of the evolutionary change process, the internal audit function has ascended to new heights by engaging in activities like increasing its responsibilities across the organization, assuming senior leadership roles and becoming business partners. Now that the internal audit function has moved into the forefront, senior management has used the internal audit function in other aspects of the business. Internal audit provides assistance and support to management in a number of areas. These areas include participating on project steering committees, providing advice and recommendations to project teams and monitoring the progress and direction of the project (Schneider 2008). The expertise of the internal audit function has been used in mergers and acquisitions, strategy formulation and in risk management. As companies set out to position the company for growth and new business initiatives, the internal audit function has become a vital member of the decision making team.

The case findings support the idea that the incremental value provided by the IAF can be classified in the 'strategy/goal' category of the two-tiered organizational framework. If the organization has set objectives to achieve specific goals and/or initiatives such as being an explorer or exploiter, then the IAF can provide assistance by implementing new processes, habits and routines (Scapen and Burns 2000) to be institutionalized in the know-how of the organization. Hespenheide (2005) points out that, "when organic growth defines the strategy, either through expansion into new regions, distribution channels, or customers, internal audit should be involved in all the 'auditable' processes such as research and development, decision-making, inventory management and ethics compliance to name a few."

As individuals in the company seek vertical mobility to the upper echelons of the business, the internal audit route has proven to be a successful launching pad and training ground because of the exposure to many layers of the business while honing analytical and critical thinking skills. The value of internal audit experience was reinforced by events that triggered regulation in the form of SOX, which led to the heightened visibility and usefulness of the IAF. Thus, the two-tiered framework shows us how we arrived at the outcome of change and the case results support this idea. The skill set of the internal audit function is easily transferrable to higher leadership levels of the business. For example, members of the internal audit function have used their expertise to obtain higher level executive positions within the company like Chief Operation Officer, Chief Executive Officer and the like. Spira and Page (2003) state that, "expertise in risk management techniques becomes a source of leverage which may enable interest groups to secure positions of influence within organizations." Thus, the internal audit function has emerged as a new leader. As companies strive to compete successfully in today's regulatory environment, providing expertise in cost containment and revenue recognition can

elevate the stature of the internal audit function and diminish senior management's perception of it as simply an overhead function (Gierach, Cascarino and Basile 2010). Thus, the transformation of the internal audit function yielded three important observations. First, there has been a key paradigm shift in the perception of the internal audit function from a scorekeeper and watchdog to change agent and business partner (McNamee and McNamee 1992). Secondly, the flexibility and adaptability of the internal audit function showed that it has versatility (Hespenheide: 2005). Thirdly, as the organization prepares to staff key, senior leadership positions, good candidates will likely possess internal audit experience as a competency. Giesecke and McNeil (1999) state that, "competencies are defined as the skills, technical knowledge and personal attributes that contribute to an individual's success in a particular position and/or function." According to Prahalad and Hamel (1990), "firms should completely understand their core competencies and capabilities to successfully exploit their resources, which are consistent with the Resource-Based View of the Firm. A company has a sustained competitive advantage to the extent that it can effectively exploit its resources." Therefore, the internal audit function is an integral part of the company's core competencies. Javidan (1998) suggests that, "building strategic competencies is a process of evolution that starts from capabilities to competencies to core competencies. This process can only be effective if there are increasing levels of collaboration." Liedtka (1996) points out that, "successful collaboration involves three key attributes: a partnering mind-set, a partnering skill-set and a supportive organizational context." Partnering and collaborating with various cross-functional teams allows an individual to assimilate in that environment to a certain extent. As a result, one begins to learn new skills and competencies. Some examples of those competencies are facilitation skills, creative problem solving skills, presentation skills, interpersonal skills, cognitive skills and IT

literacy and behavioral skills (Pickett 2000). The internal audit function is in a unique position because of the opportunities for unbridled access to various functions that no one else has. There is no better way to learn about a process than to audit it. To audit the process, one must develop an understanding of it, test it and make an assessment about its effectiveness. In doing so, you acquire key insights and learning. Over time, as you explore different types of processes and functions, the internal auditor develops and accumulates a rich repertoire of knowledge, skills and abilities that provide a holistic view of the organization. In essence, the auditor has a 'tool bag' of skill sets that can be applied and transferred to various jobs. Therefore, we assert that it is the amalgamation of risk management skills, soft and hard skills, controls and process expertise that form the competency framework for positioning the internal auditor for roles of increasing responsibilities in the organization. Risk management has become the vehicle that allows the internal audit function to showcase its value. Moreover, individuals who have internal audit experience become ideal candidates for senior management because of they possess a vast collection of tools to shepherd the organization to success in a rapidly changing, dynamic environment. We liken the internal audit function to the company's secret weapon and as a valued member of the organization's cadre of trusted, skilled advisors. In summation, using the two-tiered theoretical framework, we are able to comprehend how the change in the organization and the IAF began with events, responses and the strategy/goal categories of the framework. Further, based upon the internal audit function's bevy of expertise and the versatility it can provide with respect to roles of increasing responsibility, we submit to you that the internal audit function has transformed its role of scorekeeper and watchdog to strategic business partner and change agent.

In the paragraphs that follow, the results are presented in terms of the study's research questions.

RQ1: As a result of SOX, how has the role of the internal audit function changed (i.e. people, processes, procedures and structures) in the organization?

Punctuated Equilibrium Theory helps to explain why the role in the IAF changed in terms of people, processes and procedures and structures; the role changed because of the exogenous shocks that disturbed the current equilibrium in corporate governance. This change is identified in the 'events' category of the two-tiered organizational framework. Further, this category explains the accounting and corporate fraud scandals, which represented episodic events that prompted a response in the form of SOX (corporate governance legislation). This response represented an external event to organizations. SOX is a direct consequence of the conflict that arose between public investors, consumers and the private sector. The two-tiered organizational framework is also useful for explaining the impact of environmental stress (i.e. SOX) on organizations subject to SOX. For example, SOX was a required mandate for publicly traded companies. Other companies made the decision to go private; this was the response of a number of organizations who refused to bear the cost of SOX. The action of these organizations can be classified in the 'Gradualism' category because the theory of natural selection is applicable here. Organizations that complied with SOX were able to meet the demands of SOX by reconfiguring resources to meet the environmental challenge. Those organizations that chose not to comply or unable to do so were selected out. Moreover, SOX was a revolutionary change that established a new steady state for organizations, including the IAF. The IAF's evolution is a behavioral response to the teleological change of SOX. Thus, SOX is now the event which produced unanticipated consequences in the IAF's role and responsibilities.

This section describes the people impact of the IAF's migration from its traditional role to a management advisory role. In addition, there are some quotes from chief audit executives, audit committee members and senior executives that provide a glimpse of the study's findings. The shift in role responsibilities can be seen in a couple of ways. First, there was a shift in the scope of work performed by internal auditors from typical audit plan engagements to heavy financial control testing and risk assessment. Specifically, it increased staffing levels, diverted resources away from operational audits and ramped up documentation to a more granular level. Earlier studies confirm these findings (Carcello, Hermanson and Raghunandan 2005; Clark 2005). Depending on the viewpoint, these actions may be considered both negative and positive. On the one hand, from a shareholders' perspective, the additional resources and changes provided greater assurance and comfort. On the other hand, opponents would argue that this assurance was provided at the expense of shareholder value.

> *"Although SOX ate up some shareholder value, in the end, I believe there was a net positive effect because shareholders now have a little more insurance for their investment because the financial statements are probably more accurate, which bodes well for all parties" – Audit Committee Member IP1*

From the organization's perspective, SOX proved to be extremely costly and placed a considerable burden on the organization for massive testing of controls and performing the due diligence required for compliance. Many organizations argued that the cost-benefit return was negative because the incremental assurance did not justify the huge cost outlays associated with SOX.

> *"SOX guidelines resulted in a disproportionate amount of focus placed on financial controls – the level of details was not commensurate with the risk that was being mitigated; therefore, this extreme shift caused the IAF to lose focus on the broader set of risks that the company was facing." – Chief Audit Executive IP2*

Because SOX served as the conduit that brought awareness of the IAF's expertise, senior management enlisted their assistance in other areas such as special projects and consulting engagements (Schneider 2008).

> *"Roughly 30% of our audit schedule is dedicated to consulting engagements." – Chief Audit Executive IP3*

Thus, the IAF could shift roles according to the needs of the organization.

The two-tiered organizational framework is helpful in interpreting how SOX thrust the IAF into more of a leadership role by becoming a facilitator in the organization by performing due diligence, initiating testing of internal controls, overseeing other compliance and corporate governance responsibilities. Thus, the new role represents a behavioral response to SOX. Not to mention, the IAF was responsible in many organizations for ensuring that the certification process was administered properly to ensure compliance with SOX. Moreover, the IAF moved into a management advisory role (i.e. consultant) by engaging with senior management and the audit committee to offer advice and assessments about the risk profile of the organization and the suggested courses of action for achieving compliance, which is another example of the behavioral response category of the two-tiered organizational framework.

> *"The IAF can be a leader if it can empower itself by establishing relationships and using a collaborative approach to managing risk and evaluating business opportunities; If it is successful in cultivating these relationships, then the IAF will be able to facilitate value." Chief Audit Executive – IP5*

By partnering with management, the IAF was able to become a key part of the dominant coalition because of its expertise. Management relied on the IAF's input before making decisions (Liedtka 1996).

> *"The IAF has a seat at the table, but we are intentionally not a part of the decision making process; we're more of an advisor and an objective point of view." Chief Audit Executive – IP4*

However, there are opponents who assert that the IAF is not a part of the dominant coalition.

> *"The only influence the IAF has is in cases where it may wield a little power to report on the efficacy of a department or function. If the IAF's report is negative, it could have career-ending implications for those who lead the function." Chief Financial Officer - IP8."*

Overall, there seems to be a consensus that the IAF is able to provide input that influences management's decision making. The ability of the IAF to move back and forth between all of these roles-sometimes wearing all the hats simultaneously-demonstrates its self-organizing and autopoietic qualities.

As a result of SOX, the IAF played a very active role in making sure that internal controls embedded within processes and procedures were designed properly and operating effectively. SOX initiated a whole new discussion about risk, helped internal auditors sharpen their risk mindset, and it underscored the importance of enterprise risk management, which were themes emphasized by the cases.

> *"I believe SOX kicked off the discussion around Enterprise Risk Management. Eventually, audit firms and boards recognized that they needed to open the conversation around the question of business risks that firms were facing. SOX ignited the debate about enterprise risk. So, if companies did not have an enterprise risk management system in place, they either started one or improved the one that they had." Audit Committee Member – IP7."*

In addition, the IAF led the enterprise risk management effort or jointly collaborated with other assurance providers (internal and external) to address the enterprise risk (e.g. reputational, information security, etc.) concerns of the organization. The creation and resurgence of enterprise risk management programs can be classified in two ways according to the two-tiered framework. First, it can be seen as a behavioral response emanating from SOX as an externally-induced innovation. Secondly, the enterprise risk management effort can be viewed as a way to

institutionalize new processes and routines as part of a continuous change and a way to help the organization become explorer or exploiter. In many cases the IAF was the prime change agent for driving change throughout the organization. Deficient processes were replaced and/or substituted for more effective and efficient processes. For many organizations, this process became known as process reengineering. This concept is known as the replacement part of episodic change dimension of Weick and Quinn's (1999) Framework, and the IAF is assuming the role of the change agent. The IAF partnered with operations to make this change happen smoothly. Although the change triggers served as a catalyst for unleashing the hold of inertia, it was SOX that empowered the IAF to take on a leadership role and change processes and systems. By helping to institutionalize new habits, processes and routines, the IAF helps the organization meet its goals and objectives. Based upon the two-tiered organizational framework, we are able to describe how SOX, an external event, served as a catalyst for innovation and produced unintended consequences. Thus, the beauty of this two-dimensional framework is that it allows us to see the movement up and down and from quadrant to quadrant.

RQ2: In what ways does the internal audit function add value to the organization post SOX?

RQ2A: How does the role of the internal audit function contribute to the organization's strategic goals and objectives?

RQ2B: Why is the internal auditor's expertise valuable to the organization?

RQ2C: How has senior management leveraged the resources of the internal audit function to address corporate governance responsibilities?

The role of the IAF as an assurance provider contributes to the organization's strategic goals and objectives by helping the business and its leaders eliminate and mitigate risk.

Therefore, an effective IAF is capable to assist the organization in developing and calibrating the appropriate risk appetite. Thus, the IAF will help the organization limit risk but allow a certain level of risk that will enable innovation. The two-tiered organizational framework captures the IAF's role as a contributor to the organization in the 'behavioral response and goal/strategy' categories of the framework. The IAF can finds ways to help the organization be innovative without compromising internal controls and making sure it does not assume unnecessary risk. But, in that same vein, the IAF can play an instrumental role by helping the organization set strategy and meet its goals. These actions can constitute changes in operating philosophy and processes, which are institutionalized.

> *"One of the contributions that IAF has is our ability to connect with and understand the business along with the risks that go with it; this is possible because the IAF audits the business." Chief Audit Executive - IP2*

With the inside knowledge that the IAF has gained by auditing the business and its processes, it can implement key business initiatives, and help the firm to effectively manage organizational change. One way for the IAF to provide assistance is to evaluate internal controls and processes to determine if they are operating effectively. If the controls are not operating effectively and/or efficiently, then the IAF is able to optimize value creation by making process improvement recommendations; this action helps to preserve existing value and enable new value creation because the heartbeat of any organization is its processes. Value creation is an essential part of the two-tiered organizational framework because it can flow from both the 'behavioral response' and 'goal/strategy' categories. As such, optimizing value creation and making process improvement recommendations are key examples of innovation. Thus, the IAF has the capacity as a change agent to establish a rhythm of continuous change. Therefore, the IAF is able to institutionalize new habits and routines that will create value.

> *"Almost every audit can fall into that value preservation bucket in some way. Because of the nature of the assurance and advice that we give, the IAF can be a driving force to enable future value creation. And, by that I mean that somebody else making the decision to create a new product or go into a new market or develop a new pricing strategy or something like that but they are doing so based on the information and confidence in people and processes after the IAF has provided assurance." Chief Audit Executive - IP4*

Further, the IAF is an important part of the combined assurance model used by many organizations. For this model to be effective the IAF has to collaborate and coordinate tasks and responsibilities with other assurance providers to ensure the organization can successfully achieve its goals and objectives. Based upon the reflective data provided from one of the case respondents (senior management executive), he affirms the claim that the internal audit function provides advice that is useful in shaping the organization's strategy and objectives.

The IAF can also serve as a facilitator to assist the organization in complying with corporate governance responsibilities and as a consultant on new strategic business initiatives. Because of the IAF's success with SOX, it was able to leverage its expertise to address other corporate governance responsibilities such as compliance with the Foreign Corrupt Practices Act. Although the act was passed in 1977, many firms operate as multinationals conducting business globally. Expanding operations outside of the United States brings with it a host of new, complex business issues and cultural changes. Therefore, different business practices can lead to actions that may violate laws, policies and procedures. The IAF can provide assistance by conducting training and coaching on acceptable business practices and recommending appropriate action plans to achieve compliance. Another way the IAF can demonstrate its leadership is by conducting an initial compliance risk assessment of new and emerging markets where organizations have committed or planned to conduct business. The IAF can report back to the organization and the audit committee about issues such as statutory accounting rules,

country-specific mandates, environmental, fraud and corruption risks along with compliance with the local government in that country as well. In some countries, firms are only allowed to do business with the government. Not to mention, it is commonplace for US firms to create joint ventures, partnerships and strategic alliances in these new territories. As such, there are foreign currency fluctuation risks, repatriation of cash and the tax implications domestically and internationally. Moreover, as new regulations emerge (e.g. Frank-Dodd Act and others) and businesses compete globally, senior management can rely a lot more on the IAF because of its expertise and experience in all kinds of business matters. Because the IAF can assume a number of different roles and capacities, it has the ability to be adaptive, flexible, innovative and self-organizing. Depending on the organization's objectives, the IAF can be an effective change agent in helping the organization become an explorer or an exploiter to achieve its goals and objectives.

In brief, the two-tiered organizational framework has given us the opportunity to understand the change in the organization and the IAF by considering change as a multi-dimensional concept that possesses layers. Although change is initiated in a variety of ways (planned or unplanned), its impact has far reaching implications. In other words, we found that change has the capacity peel away old layers and create new ones. SOX was a response to an unplanned event, which served as the catalyst that brought awareness to senior management about the IAF's ability to add value to the organization in numerous ways. This new awareness of the IAF's knowledge, skills and abilities beyond the traditional duties is an unanticipated consequence of purposive social action. As a result, it appears that perceptions are changing about the IAF's ability to contribute to the organization in a number of ways.

RQ3: How can internal audit experience help individuals achieve leadership positions of increasing responsibility?

Based upon the two-tiered organizational framework, we see that the organization and the IAF were in a state of gradualism prior to SOX. As a result, the current corporate governance system experienced gradual change, but recent accounting and corporate fraud scandals served as episodic change triggers and punctuations which prompted teleological, revolutionary changes in corporate governance in the form of the SOX Act. Here, we see corporate governance move into the 'events' category of the two-tiered organizational framework. Thus, we see how this episodic change had a dramatic effect on the internal audit function by flushing out the value of internal audit experience; this change is linked to the 'behavioral response' category because the cause was attributed to the change triggers which caused SOX. Then, SOX acted as a catalyst by exposing the IAF's knowledge, skills and abilities to senior management. The value of internal audit experience in the organization has manifested itself in a number of ways. The IAF is seen as a leadership development function, which serves as a pipeline for new talent. SOX definitely played a role in that perception. SOX helped to reinforce and enhance the value of internal audit experience because it was able to step up and help the organization become compliant. Internal audit experience allows candidates the opportunity to see many different parts of the business. As a result, the exposure arms candidates with a tremendous amount of knowledge and expertise in the form of risk management and problem solving skills. The value of internal audit experience has grown to the extent that many organizations have developed rotational programs as leadership development for business leaders. Many organizations require that candidates spend at least a two to three year stint in the IAF before progressing to executive management positions. Internal audit experience is a good way to teach the kinds of skills that will help the

organization accomplish its goals and/or strategy. Internal audit experience is connected to the two-tiered organizational framework in that it can help candidates become a change agent and identify opportunities to implement continuous change pushing the organization to move toward its goals and objectives.

> *"Part of our vision in internal audit is to be a pipeline of people with the right virtues and talents into the organization; I keep telling the rest of the management team while it is important to help everybody be a better auditor, our primary objective is to coach them to be better business people, not just better auditors." Chief Audit Executive – IP6*

Internal audit experience is also valuable in helping organizations comply with SOX and other corporate governance responsibilities. Since the IAF had experience with internal controls, risk assessments and risk management, it was able to take on a leadership role in making decisions about compliance issues. Because of the level of detailed control requirements, the IAF became the dominant coalition by advising senior management and the audit committee on how to guide the organization toward compliance. Now, this was not case for all organizations because some of them already had a robust system of internal control in place. Thus, SOX was viewed merely as another responsibility on the list. But, many organizations decided to institutionalize the new rules, routines and daily tasks related to SOX as a part of normal operations.

> *"SOX was ingrained into the daily responsibilities. We decided that SOX would be viewed as a driver of business process improvement efforts rather than as an impediment." Chief Audit Executive – IP6*

Another key benefit derived from internal audit experience is the growth that candidates experience as an auditor and a business leader. Moreover, internal audit experience implies a certain degree of discipline and critical reasoning skills. The most important benefit of internal audit experience is having business leaders and former auditors transfer their knowledge across the organization. However, there is debate about whether internal audit experience is a key

prerequisite for successful leadership in organizations. It has been suggested that internal audit experience can force individuals into a box that makes it difficult for them to see the big picture.

> *"I think an individual who has internal audit experience can be a successful leader if he or she is not too consumed with the rigidity of internal audit. If the candidates are able to incorporate the tools learned through their internal audit experience, then they will be able to exploit the opportunities available to the organization. I believe internal audit experience will allow candidates to be successful in other roles of the organization only if they have the interpersonal skills and personality to build relationships. I have seen far too many people with the technical ability, but they were not able to relate to others." Chief Financial Officer – IP8*

Therefore, internal audit experience needs to be aggregated with other interpersonal skills such as influencing and negotiating to build a recipe for success in the organization. Leaders who possess internal audit experience will strengthen organization's control environment by institutionalizing processes and routines in each of the functions of the business. These new routines and ways of doing things lead to process improvement, which are considered an innovation.

In brief, the findings reveal to us that, although internal audit experience may not be the panacea for successful leadership in all cases, it appears to make a compelling case as an effective tool for enhancing one's leadership ability in the organization. Thus, the IAF can serve as a developmental platform for candidates to become effective business leaders. Perhaps one of the key insights of the two-tiered organizational framework is that it gives us a tool to interpret the impact of change in the organization and the IAF by exploring change as a multi-dimensional, fluid concept as opposed to evaluating it as a static concept.

CHAPTER VII: DISCUSSION

Based on the two-tiered theoretical framework, we are poised to explain the evolutionary change that occurred in the IAF as a result of SOX. The genesis of this change began as the result of exogenous shocks in the form of accounting and corporate fraud scandals that caused seismic shifts in corporate governance-ultimately exposing the inherent weaknesses of an inadequate corporate governance system. These events led the US Congress to act by passing corporate governance legislation in the form of the SOX Act. Table 6 shows the relationship of the theory to the results.

Table 6 shows the application of theory to the case.

Teleological	Evolutionary	Episodic	Continuous
Unanticipated Consequences of Purposive Social Action: As a direct result of SOX, the IAF's role morphed into advisor, risk management expert, consultant and business partner; The IAF has become a core competency of the firm; IA used as a development platform for new and existing business leaders	Punctuated Equilibrium: Corporate governance was experiencing slow, gradual changes over time until major events forced a change in the equilibrium and established a new steady state in corp governance reform	Accounting and corporate fraud scandals represented change triggers that prompted legislation (i.e. SOX	After SOX's initial implementation, the IAF served as a monitor of controls; the IAF also was able help the organization by continuously modifying work practices and processes to be compliant and efficient
Innovation: SOX is an example of externally-induced innovation that led to process improvement, simplification, operational efficiency	Institutional Theory: SOX was considered a major accounting change which institutionalized new habits and routines and ways of doing things. The IAF was instrumental in leading these new changes by recommending new process improvement measures	As a result of SOX, the IAF emerged as a change agent to ensure the organization complied with the corp governance change	Changes are embedded into the organization's daily practices as norms and routines.
Exploration vs. Exploitation: Due to SOX, the IAF's expertise was leveraged to help the organization achieve its goals and objectives such as becoming a market leader, achieving economies of scale, etc.			

The two-tiered organizational framework allows us the opportunity to understand the nature of change in the organization and the IAF as a result of SOX in terms of the two dimensions (i.e. episodic versus continuous change and evolutionary versus teleological). From

the model of the two-tiered organizational framework, we are able to see that the change in the IAF is concentrated in three key areas: events, behavioral response and strategy/goal.

The events category really explains how the change began. Accounting and corporate fraud scandals were episodic change triggers and/or punctuations that led to an external event like SOX, which led to innovation in the IAF by changing its role from a an error checker and enforcer of procedures to that of a business partner and change agent. By exploring the change in the organization and the IAF, we observe that change is not order-specific. Evolutionary change can initiate a change in strategic direction and vice versa. Likewise, episodic change can ultimately become a part of continuous change and vice versa. Thus, the two-tiered organizational framework shows us that change is multi-dimensional and it can shift in different directions. Punctuated Equilibrium Theory provides a plausible theoretical explanation for the chain of events that occurred. On the one hand, the current corporate governance system was experiencing slow, gradual changes over time. Although there were imperfections and issues associated with it that occurred in the past, they were not significant enough to warrant major changes. But, the sheer magnitude of these accounting and corporate fraud scandals represented episodic change triggers that prompted action in the form of the legislation, which led to revolutionary, fundamental changes in corporate governance reform for publicly traded companies. The comprehensive scope of the SOX Act and its extreme focus on financial controls demanded that companies conduct risk assessments and document internal controls as well as provide assurances about the accuracy and validity of financial statements through the certification process.

The behavioral response category demonstrates how the consequences of an event can assume a different role in another change situation. For example, although one could argue that

SOX was an external event that resulted from episodic change triggers known as accounting and corporate fraud scandals, it is interesting to see how SOX now becomes the change trigger that leads to organizational change in the IAF and the organization as a whole.

The strategy/goal category shows how organizations can initiate a change in its objectives, which can set the organization on a whole new trajectory. From the data collected from interviews and other documentation (e.g. IA Charter, Corp Governance Directives), we observe that the IAF's ability to provide assurance about processes and risk management is a valuable tool for helping the organization develop and implement its goals and strategies. For example, SOX gave the IAF a real opportunity to share its intellectual capital with the organization in a way that led to process reengineering and simplification. Therefore, SOX has been an effective change agent for institutionalizing new habits and routines that are embedded in the organization's know-how and doing away with defunct practices. These new routines can enable the firm to become an explorer by branching out into new business ventures. Alternatively, new routines and processes can enable the organization to draw on its strengths and competencies by becoming an exploiter (e.g. driving efficiencies that provide economies of scale). SOX was an institutional management accounting change that established new habits and routines, which had a dramatic impact on publicly traded organizations in many different ways. Thus, institutional theory explains how new routines and habits can influence how an organization behaves and interacts. On the other hand, SOX sparked a dramatic change in the IAF because many organizations enlisted the assistance of the IAF because of its domain knowledge and expertise. Since these actions were already perfunctory tasks performed by the IAF, many organizations relied very heavily on the IAF to achieve compliance with the SOX Act and other corporate governance responsibilities. Therefore, senior management was forced to

recognize the value of the IAF as a key resource because of the leadership it showed with SOX. From a teleological perspective (using this study's extended definition of Van de Ven and Poole's Teleological motor which includes the functional aspects of a behavioral response), we are able to understand how an external event like SOX can effect change in the IAF. There was a distinct purpose for passing the SOX Act; it was designed to improve the transparency, validity and accountability of financial reporting and disclosures.

In another vein, based on the input of the case respondents, it appears that SOX had a part in breathing new life into what some would consider a marginalized IAF. The success of the IAF has helped to propel the IAF as a developmental platform for executive leadership. Now, it is the strategy or goal of many firms to ensure that internal audit experience be a part of the critical path to executive leadership and responsibility as evidenced by the number of executive leadership programs that use the internal audit model for candidates to hone and develop the competencies needed to be successful in the organization regardless of the position.

It can be argued without equivocation that SOX has had a huge impact on the IAF and the organization as a whole, but there were both positive and negative impacts associated with SOX. Thus, Table 7 shows the direct consequences of purposive social action (i.e. SOX). Merton (1936) states that there are direct consequences associated with purposive social action, which maybe positive and/or negative as well as the unintended consequences that result from it. In an attempt to address a specific problem or attain a goal, the outcomes can vary.

Table 7

Positive Impact	**Negative Impact**
Increased level of engagement – Senior Mgmt	Sacrificed shareholder value
Upgraded quality of IA talent	Provided a false sense of security
Added more assurance	Cost-benefit return not received
Sharpened IA risk mindset	Too much focus on financial controls
Increased focus on change control & IT Security	PCAOB requirements too stringent on org

Thus, SOX made an impact which resulted in consequences that may have been costly in one respect, but hopefully beneficial in other respects such as the transformational change in the IAF. Although the SOX Act was prescriptive in nature to address a specific problem, it also served as a catalyst for ushering in a new change in the IAF by causing a shift in roles and responsibilities.

The shift in roles and responsibilities can be explained as an unintended consequence of purposive social action. For example, the IAF became an advisor to operations and senior management by providing consulting and risk management advice. Moreover, the IAF took on additional responsibilities like documenting controls, managing enterprise risks, performing due diligence and providing process improvement recommendations. Historically, all of the aforementioned actions have not been a part of the IAF's normal roles and responsibilities. They emerged as an unintended consequence of purposive social action – SOX. In addition to increasing responsibilities, the IAF has evolved and transformed itself by assuming senior leadership roles across the organization, thereby underscoring the value of internal audit experience and establishing itself as a core competency of the firm. Although we were not able to obtain longitudinal data on the IAFs of organizations pre-SOX, we were able to examine how and an external event like SOX could spark strategic change in the IAF. This external event provided an opportunity to show how the IAF can be useful in other ways that can benefit the organization. The process expertise and risk management skills can help the organization achieve its goals and objectives. If the firm has a goal to become an exploiter by achieving operational efficiency and economies of scale, the IAF use its knowledge to re-engineer processes to make them more efficient and cost effective. The implication of this type of innovation can improve the firm's bottom line. Further, as organizations explore new business opportunities, the IAF can be a valuable resource in evaluating the potential risks and benefits of

the venture to the organization. Another unintended consequence of SOX showed the ability of the IAF to become an active participant in helping the organization achieve its goals and objectives, which is a major shift from its traditional responsibilities as an error checker and enforcement of procedure role. This paradigm shift has re-established the IAF on new footing with the organization going forward. Therefore, because of SOX, the IAF has evolved and emerged as a strategic business partner, thereby solidifying its value to the organization.

CHAPTER VIII: CONCLUSION

In the most recent decade, we have seen a dramatic paradigm shift in the evolution of the internal audit function. A series of exogenous shocks set into motion a cascading chain of events that produced fundamental, revolutionary changes in corporate governance (i.e. SOX) and in the IAF. The two-tiered theoretical framework shows us how events, response and strategy are key parts that drive change in the organization and its functions. Further, this framework supports the idea that change is not order-specific, but it can be expressed in different outcomes as it moves across both dimensions (episodic change versus continuous change and evolutionary versus teleological). SOX sparked evolutionary changes in roles and responsibilities of the IAF; it expanded the scope their work to include identifying, testing, and remediating financial controls as well as conducting risk assessments. In addition, the IAF demonstrated its leadership ability as a facilitator and a management consultant by making process improvement recommendations and providing input to senior management on how to address risk management concerns. As a result, new processes were changed and redesigned to strengthen the internal control environment. These actions paved the way for the IAF to transform itself. Because of the IAF's success as an assurance provider in SOX and other corporate governance responsibilities along with its leadership as an objective management advisor, it was able to change perceptions about its value to the organization. Furthermore, the IAF was able to show that it could make a significant contribution to the organization's strategic goals and objectives by partnering with business leaders to eliminate and mitigate risk. The IAF's inside knowledge and expertise gained by auditing the business and its processes provides a strategic planning advantage to the business as it explores and exploits new business opportunities as well as create innovative process improvements that can make the firm more efficient and profitable. The

process improvements are institutionalized as new habits and routines designed to create value. Thus, SOX was the vehicle which brought awareness about the value of internal audit experience to many organizations. The value of internal audit experience is underscored in its use as a developmental function in rotational programs to establish and hone leadership skills. Thus, the IAF has emerged as a strategic business advisor, thereby solidifying itself as a core competency of the firm.

VIII.I CONTRIBUTIONS

The goal of qualitative research is to help us answer the research questions that go beyond quantitative data analysis (Myers 2009). Specifically, qualitative research can help us understand how organizations react and adapt to environmental changes such as regulation (Fox-Wolfgram et al. 1998). This study makes the following contributions. First, this study introduces a new, two-tiered organizational framework, which allows us to analyze nature and substance of organizational change in the IAF; this is accomplished by using a two-dimensional approach to categorize change as being episodic versus continuous change and evolutionary versus teleological change. This two-dimensional framework classifies the change into specific categories: events, behavioral response, strategy/goal and gradualism. The categories or quadrants are created by the intersection of both dimensions. Further, the two-tiered organizational framework goes on to show us movement up and down each continuum. In addition, we learned that change is not order-specific and static; it can serve as a behavioral response to a teleological change in one sense and become a change trigger in another category or quadrant. From a teleological perspective, we are able to analyze how an external event like SOX-which was initiated by episodic change triggers-can produce enormous change throughout the organization by altering its structure and processes. The demands of a planned change can

tap the adaptive instincts of organization. If the organization is inert and does not possess the ability to adapt quickly enough, then it is selected out. Secondly, the IAF can use its expertise and intellectual capital and convert it into a key resource for addressing threats and opportunities.

VIII.II LIMITATIONS

When researchers attempt to explain a process or organizational change that occurs over time, longitudinal data is typically used. In this research study, longitudinal data will not be used because of financial and time constraints. Secondly, this study was not able to include any data about the state of the IAF prior to SOX. Thirdly, we received limited data from senior management because it was difficult to obtain interviews from senior management executives. Despite the study's limitations, we believe that using case study research allowed us to gather rich data by concentrating on a few cases to extract key insights about this phenomenon. Moreover, we believe a manageable number of cases gave us adequate diversity and similarity to evaluate the context surrounding the phenomenon. As researchers, we bring certain values and beliefs based on our life experiences that shape our views of the world. As a result, the research is vulnerable to our bias to a certain extent. In order to mitigate the impact of bias to the study, we followed Klein and Myers' (1999) principles by being open-minded and alert to potential biases.

VIII.III FUTURE RESEARCH

This study has provided a glimpse of how the impact of legislation can be a catalyst for driving organizational change and reinventing organizational functions like the IAF. Moreover, this new two-tiered organizational framework provides an opportunity to extend the literature and body of knowledge by adding a new perspective to analyze organizational change. The

framework evaluates change from a multi-dimensional approach, which can add richness and depth to organizational change studies going forward. Major legislation like SOX has the ability to shape and influence behavior in organizations if they are to survive by becoming adaptable. Because legislation is a phenomenon that has dramatically shaped and altered the operating landscape of business in approximately every industry, studying how the behavioral impact of teleological changes can drive evolutionary transformations in organizations is fertile ground for future research.

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APPENDIX A: INTERVIEW QUESTIONS

1. Do you believe that the internal audit function (IAF) plays an effective role in helping your organization achieve its goals, objectives and initiatives? If so, please tell me how you would rate the effectiveness of the IAF's role by selecting a number between 1 (least effective) and 5 (extremely effective).
2. What role does the internal audit function play in helping your business achieve its objectives and initiatives?
3. Do you agree that corporate governance legislation (i.e. SOX) has had a huge impact on the internal audit function in your organization? If so, please tell me how significant you think the impact of legislation is on the IAF by rating it between 1 (least significant) and 5 (extremely significant).
4. Since SOX, have you received any value from the IAF? If so, what is that value?
5. What changed in the internal audit function?
6. What are the stockholder implications as a result of SOX?
7. What financial statement reporting changes have occurred since SOX was enacted?
8. What changes did the IAF make with regard to enterprise risks as a result of SOX in terms of processes and procedures?
9. How do you view the leadership role of the internal audit function as a result of corporate governance legislation (i.e. SOX) in terms of people, processes and procedures?
10. What are some of the structural shifts that occurred in the organization as a result of SOX?
11. Given the dramatic changes in the regulatory environment of business today, has the internal audit function been effective in serving as the consulting arm of management?
12. Is the internal audit function included in senior management decision making since SOX? Has it become more a part of the decision making team since SOX?
13. What other ways do you see the internal audit function adding value to the organization?
14. How has management leveraged the competencies of the internal audit function to comply with corporate governance legislation?

15. Given the regulatory environment today, how valuable is it to have internal audit experience?
16. What role has the internal audit function played in risk management activities of the organization?
17. What are the risk management activities that the internal audit function is involved in?
18. How has risk management skills allowed those in internal audit to compete for cross-functional roles in the organization?
19. How helpful is having internal audit experience as a competency for new business leaders?
20. How has internal audit competencies/skills/experience helped individuals obtain positions of increasing responsibility in senior management (e.g. VP, Director, COO etc.)?

APPENDIX B: CONTACT FORM

Contact Type:
Visit___X____
Phone_____

Site: XXXX
Contact Date: XXXX
Today's Date: XXXX
Written By: KKJ

1. What were the main issues or themes that struck you in the contact?

    a. XXXXX XXXXXXXX
    b. XXXXXX XXXXXXXXXXXXX
    c. XXXXXX XXXXXXXXXXXX
    d. XXXXXX XXXXXXXXXXXX
    e. XXXXX XXXXXXXXXXXXXX
    f. XXXXX XXXXXXXXXXXXX

2. Summarize the information you got (or failed to get) on each of the target questions you had for this contact.

    a. XXXXX XXXXXXXX
    b. XXXXXX XXXXXXXXXXXXX
    c. XXXXXX XXXXXXXXXXXX
    d. XXXXXX XXXXXXXXXXXX
    e. XXXXX XXXXXXXXXXXXXX

3. Anything else that struck you as salient, interesting, illuminating or important in this contact?

    a. XXXXX XXXXXXXX
    b. XXXXXX XXXXXXXXXXXXX
    c. XXXXXX XXXXXXXXXXXX
    d. XXXXXX XXXXXXXXXXXX

4. What new (or remaining) target questions do you have in consulting the next contact with this site?

    a. XXXXX XXXXXXXX
    b. XXXXXX XXXXXXXXXXXXX
    c. XXXXXX XXXXXXXXXXXX

APPENDIX C: DOCUMENT FORM

Document Summary
Document #:
Document Title:
Date received:
Place received:
Consequently, the Sarbanes-Oxley Act of 2002 was passed by the congress to overhaul the system and implement regulatory guidelines to achieve accountability, transparency and reliability during corporate disclosures. *Event or contact with which document is associated*:

Document Description

Significance or importance of document

Brief summary of contents
1.
2.
3.
4.
5.

New questions or puzzling issues to resolve
1.
2.
3.

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