
Auditee Satisfaction and Compliance: The Mediating Role of Perceived Service Quality concerning Malaysian SMEs

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ABSTRACT

Audit firms must meet the needs of their auditees to achieve sustainable development. The paper aims to analyze the role of auditee satisfaction perceived service quality to affect the compliance variable in auditing service provided by SMPs to SMEs in Malaysia.

Data collected via structured questionnaires through email communication. The collected data were analyzed first using descriptive statistics, followed by correlation analysis to establish the mediating effects of perceived service quality between the dependent and independent variables. Lastly, a regression analysis was borne on the model to test the hypotheses.

The study found that auditee satisfaction correlates with perceived service quality, while both perceived service quality and auditee satisfaction were a significant relationship towards compliance. The study also showed that perceived service quality as a mediating role between auditee satisfaction and compliance was significantly based on SEM PLS analysis.

The research findings are also imperative to scholars, academics, scientists, and researchers by adding to the body of current knowledge on internal audit and risk management. Nonetheless, its sample size limits the study. Therefore, the results do not represent the whole business organization because they determine Malaysian Smalls and Medium Enterprise, focusing only on retails and wholesales.

Keywords: Compliance, perceived service quality, and auditee satisfaction

1. INTRODUCTION

Introduction

auditee satisfaction is an essential factor for firms. In the high levels of competition, many audit firms are trying to increase auditee satisfaction. Increasing auditee satisfaction decreases auditee complaints, increase repurchase intentions, get higher future profitability,

and lead to better financial performance. Service quality is a critical factor for auditee satisfaction. It is an essential tool for audit firms for increasing their income and market share (Azman, Hafizah, & Ilyani, 2016; Ismail, Abdullah, & Francis, 2009; Ismail, Rose, & Foboy, 2016; Ismail, Rose, Tudin, & Dawi, 2017; Pringviriyaya, Hanim, Fadzil, Soffian, & Ismail, 2015).

The increasing competition and innovation in the audit firms are beneficial to customers. Increasing competition audit business has led many companies to consider quality as a strategic tool capable of influencing auditee satisfaction. Several audit firms have adopted a customer relationship management (CRM) platform to serve different customer segments' specific needs. Audit firms could differentiate their services by providing a higher quality of services. To have a competitive advantage, a firm may improve service quality to differentiate its service from its competitor.

In fulfilling the auditee need and desires, an audit firm adherence to the audit compliance set up by the Malaysian Institutes of Accountants (MIA). Because of these issues, the researchers are taking the initiative to test the auditee variable as independent, perceived service quality as mediating variable whether this couple variable impacts an audit firm adhere and obey the standard and procedures to meet the auditing compliance. In meeting the audit quality, an audit firm must put auditing compliance when performing an audit service to SMEs. The customers know how perceiving service quality can benefit audit firms in quantitative and qualitative ways.

Problem Statement

Industry gap - Within the auditing service, customer satisfaction, compliance, and perceived service quality are under-researched topics as the use of these performance criteria is in its infancy (Zuhaila Jamal, Mahamed Ali, & Azmi, 2018). At the same time, daunting challenges in this industry remain. According to Onyango (2006), problems encountered by audit firms services within the service delivery sector relate to delay in delivering services such as audit report due to a lack of timely directions on-field issues, the lack of sufficient knowledge and awareness of the business, management representatives who lack adequate knowledge to answer customer's questions, and the lack communication to its customers. Poor understanding of the market and its various facets, for example, providing service in a timely (Zuhaila Jamal et al., 2018), corporate governance tend to play a significant role in raising such concerns. When making purchasing decisions, potential customers are seeking signs or evidence of satisfactory delivery services. (Saidin, Sanuri, Mokhtar, Saad, & Yusoff, 2015). However, the quality of service performance is sometimes inconsistent and unpredictable and varies from one service provider to another (Kotler, 2000). It is, therefore, essential for service managers to minimize uncertainty to customers by providing them with good quality services.

Literature gap - One of the issues raised in the literature is that service providers who intend to increase their customer base and compete for market share need to provide excellent service deliveries. Keeping customers requires the audit services providers are continuously creative in matching their needs and offer superior services. It becomes essential to evaluate performed strategies of retaining customers' loyalty in any industry, especially the audit service industry. Thus, this study's main objective was to investigate how auditee satisfaction and perceived service quality influenced auditor compliance in the audit service industry. The task is vital in that its findings may furnish auditors and auditees in this industry with information that may be used to develop auditee satisfaction strategies in the meantime without compromised integrity in following the compliance and procedure set up by MIA, which finally leads to the prosperity of audit firms while providing audit service to SME firms in Malaysia.

Research questions

The study will analyze and determine the following questions about auditee satisfaction and perceived service quality as an independent and mediating variable that may influence an auditor while performing his/her job as an integrity auditor. The study examined the impact of autonomous and mediating variables of auditee satisfaction and perceived service quality on the compliance variable, which act as the dependent variable.

- I. Does auditee satisfaction have a significant relationship with perceived service quality?
- II. Does perceived service quality have a significant relationship with compliance?
- III. Does auditee satisfaction have a significant relationship with compliance?
- IV. Does perceived service quality mediate the relationship between auditee satisfaction and compliance?

The objective of the study

This research aimed to evaluate and analyze the effect of auditee satisfaction and perceived service quality on auditor compliance for the Malaysian SME firm. The following purposes and objective guided the study:-

- I. To determine the relationship between auditee satisfaction and perceived service quality.
- II. To determine the relationship between perceived service quality and compliance.
- III. To determine the relationship between auditee satisfaction compliance.
- IV. To examine the mediating effect relationship between auditee satisfaction and compliance.

Research Hypothesis

The following hypothesis monitored the research objectives and questions:-

- H1:** Auditee satisfaction is significantly influence perceived service quality
- H2:** Perceived service quality is significantly influenced compliance
- H3:** Auditee satisfaction is significantly influenced compliance

H4: Perceived service quality mediates in the relationship between auditee satisfaction and compliance

Scope of the study

In the current business of an audit firm, they are providing more than the core services such as sustainability reporting, reporting on prospective financial information (i.e. economic forecast, financial projection), reporting and assurance on an entity's internal control over financial reporting, agreed-upon procedures, compilation, and internal auditing (Knechel, Wallage, Eilifsen, & Praag, 2006) which an audit service is the main objective of an audit firm.

In this study, only Small and Medium Enterprise are limited companies and above registered at CCM only to be studied. It is not because the SMEs who are not limited companies are not essential to society and the country's economy. Still, the research only limited to companies registered with CCM and carry the title of "Limited Company" or " Sdn.Bhd." to avoid bias in this research.

Significance of the study

From the services industry's world, clients (SME firms) may be described as being "loyal" because they tend to select individual audit firms' services more often than others. Clients of audit firms may express high satisfaction levels with an audit firm in a survey, but satisfaction level is not equal to loyalty. Loyalty is said when the customers demonstrated they're satisfied by their actions, but sometimes customers may be delighted and still not be loyal. The research's feedback data may inform the researcher, who often stays faithful to the firms' best audit firm. This research also gives benefits the same in terms of the customer (Small and Medium Enterprise/SMEs) and practitioners (an audit firm of Small and medium practitioners/ SMPs)

2. LITERATURE REVIEW

Introduction

Audit quality (Ahmad & Taylor, 2009) has become an essential issue for the accounting profession. So much pressure from the third parties to monitor the work and demands to increase audit quality processes. To fulfil the excellent audit quality, The auditor in the execution of his/her profession as an examiner should be guided on the accounting code of ethics, professional standards, and applicable accounting standards in Malaysia. Each auditor must hold the integrity and objectivity in carrying out their duties by acting honestly, firmly, without pretensions, so that he can serve legally, regardless of pressure, or demand certain parties to fulfil their interests. Basuki and Krishna (2006) state that audit quality is a complex issue because so many factors that can impact the audit quality depend on each party's point of view. Making audit quality difficult to measure becomes a matter that is sensitive to individual behaviour conducting the review. Theoretically, the quality of work is commonly associated with auditor qualifications, knowledge, timeliness of completion of the work, a

competent examination of the evidence's sufficiency at the lowest cost, and the client's independence. Rudyawan and Badera (2007) state that the auditor who has a reputation can better audit quality, including disclosure going concern problems to maintain their status. According to Cheng, Liu, and Chien (2008) image of the auditor has a relationship with the audit office's human resources, human resources (human capital) is the most critical asset of a public accounting firm. The audit firm must ensure that they have enough personnel equipped with the competencies and professional characteristics to established according to standards, legal requirements, and community expectations. To address these expectations, audit firms must establish a strategic process of human resource management. To ensure the viability and flexibility, and capability to meet investors' needs, audit firms must continue to recruit, develop, educate, and train auditors at all levels are prepared to conduct high quality audits in a dynamic environment. The task is to examine public accounting and opinion on the fairness of a business entity's financial statements based on the Malaysian Institute of Accountants (MIA).

(Oliver, 1999) Defines satisfaction as the consumer's fulfilment response, the degree to which the fulfilment level is pleasant or unpleasant. Zeithaml and Bitner (2000) determine satisfaction as the customers' evaluation of a product or service in terms of whether that product or service has met their needs and expectations. Dissatisfaction with the products or services fails to meet the customers' needs and expectations. Satisfaction and perceived quality are highly inter-correlated (Nejadjavad & Gilaninia, 2016). Some studies find that satisfaction drives a general perception of quality, while others find those perceptions of quality drive satisfaction (Tenreng, 2016). Most marketing researchers accept a theoretical framework in which quality leads to fulfilment (Oliver, 1999), influencing purchasing behaviour (Fazzarudin, Sabri, & Ramely, 2015; Oliver, 1999). These arguments suggest that perceived service quality is likely to affect customer satisfaction. By the above statement, researchers need to test the effect of perceived service quality as mediating effect relationship between auditee satisfaction and compliance (Chien & Chi, 2019; Hassan, Sallaudin, et al., 2019; Pakurár, Haddad, Nagy, Popp, & Oláh, 2019)

Auditee Satisfaction

Auditee satisfaction is complex and conceptualized as been transaction-specific, meaning it is based on the customer's experience on a particular service which they received and encounter (Cronin & Taylor, 1994), and also some think auditee satisfaction is cumulative based on the overall evaluation of service experience (Cronin & Taylor, 1994). This highlights that auditee satisfaction is based on experience with the service provider and the outcome of services. Auditee satisfaction is considered as an attitude Yi, (1990)

Auditee satisfaction is one of the most critical issues concerning the business organization of all types, even in the auditing industrial also facing the same problem in meeting the auditee expectations, which is justified by the customer-oriented philosophy and the principles of continues improvement in the modern enterprise (Arokiasamy & International, 2013). In a

current business environment, a firm's primary strategic objectives are to minimize customer complaints and maximize customer intention rates to purchase, as evidenced by the recent emphasis on customer relationship management. Thus, the previously satisfied purchaser may help businesses reduce marketing costs and develop more stable sales levels when many satisfied auditees intend to purchase again in the future. There are numerous definitions of customer satisfaction in the marketing literature. It is accepted that happiness is a psychological state that results from auditee experiences after consumption (Oliver, 1980). According to a widely accepted conceptualization, auditee satisfaction is an auditee's post-consumption evaluation of a product or service (Mittal & Frennea, 2018; Paul, Mittal, & Srivastav, 2016; Sharma & Patterson, 1999). This only happened if a product or service's perceived performance meets or exceeds prior auditee expectation (Oliver, 1980). Thus, overall auditee satisfaction with a company's offering is determined by comparisons between auditee's expectations of the company product or services and their perceptions of the products' or services' (Fornelli, 2012; Oliver, 1999).

How audit compliance work?

Depending on the nature of company or organization, different approaches to a compliance audit can be taken. In most cases, a specially trained auditor is assigned to work through a checklist, ensuring that all requirements are met. Nothing falls short of regulation. For Financial Institutions and Service providers, the audit includes information about personal data security, disaster recovery, or information backup. For medical facilities, compliance auditing might require similar points of information. At the same time, IT consultancies are often subject to queries about processes, data storage, and protection (Lim, 2012; Malaysian Institute of Accountants, 2015). Requirements and regulations will differ from country to country and industry to industry. Many governments put compliance requirements in place to protect both enterprises and their consumers. In short, the auditor's report provides determines whether or not the company or organization complies with the applicable rules (Lim, 2012; Malaysian Institute of Accountants, 2015)

Why is compliance auditing necessary?

Laws, requirements, guidelines, and regulations are prone to change, much like everything else in life, as it turns out. As these rules change, companies need to adapt their compliances to match or risk losing accreditations and their ability to do business. These rules and regulations are in place to protect consumers and the industries that serve them. Ensuring that all providers offer the same standard, both legally and covering all necessary parameters. Failure to comply can lead to all sorts of trouble, including fines and, in the worst case, shutdowns (Lim, 2012; Malaysian Institute of Accountants, 2015)

Who performs compliance audits?

That depends. Some organizations use internal systems for auditing their processes and procedures. In contrast, others hire third-party auditors to come in and do the work from a

clear perspective. In some instances, where the compliance regulations are stringent and complicated, it pays to have a specialist come in and go through the whole system piece by piece (Lim, 2012; Malaysian Institute of Accountants, 2015)

Perceived service quality

Various authors have tried to conceptualize perceived service quality with varying illustrations through their work, especially about the dimensions employed in their studies. (Gronroos, 1984) In his seminal paper on service, quality defined the perceived quality of a given service as the result of an evaluation process, in which the auditee compares his expectations with his perception of the service received; in other words, he/she places the perceived usefulness and the expected service opposite one another. In the same study, consumers consider two factors when evaluating service quality: functional quality and technical quality. The latter is service delivery, and the former is what consumers receive from the service. (Parasuraman, A., Zeithaml, V., & Berry, 1988) confirmed that the five dimensions in their SERVQUAL model such as tangible elements, which are the physical or close contact surrounding of the place where the service is delivered, for example, how the table is set or room furnishings, reliability, which is the seller's capability to supply the promised outputs at the stated level and responsiveness determined as the capability to respond to and satisfy the customer's wishes. Others are assurance- employees' knowledge, politeness and trustworthiness and empathy- willingness and ability to respond to individual customer desires, for example, making the bed with the sheets of a particular colour as requested by a customer.

3. RESEARCH HYPOTHESIS

Relationship between auditee satisfaction, perceived service quality, and compliance

Perceived service quality is unanimously recognized as an indicator of an organization's competitiveness (El Saghier, 2015; Parasuraman, A., Zeithaml, V., & Berry, 1988; Parasuraman, Zeithaml, & Berry, 1985). Service performance is considered a comprehensiveness tool that leads to achieving and fulfil auditee satisfaction in the service industry (Ladhari, 2008, 2010). Hence, organizations can obtain a competitive advantage (Ladhari, 2008, 2010). (Parasuraman, A., Zeithaml, V., & Berry, 1988) claim that auditees assess the service quality differences between what they are looking for according to their needs and their expectations related to it on the one hand, and the actual perceived services that they receive, on the other. (Parasuraman et al., 1985) and (Parasuraman, A., Zeithaml, V., & Berry, 1988)] proposed the SERVQUAL model to fill the gap between customers' expectations and perceptions and actual service performance. Service quality can be measured using five dimensions: tangibility, reliability, assurance, responsiveness, and empathy. Moreover, SERVPERF arose as a response to criticism of the SERVQUAL model's gap because the SERVQUAL model measured auditee satisfaction only after the service was provided (Lee & Moghavvemi, 2015; Sanjuq, 2014). However, the SERVQUAL model is the most commonly used to measure and evaluate service quality worldwide, even in the auditing sector. Therefore, regardless of the increasing use of SERVQUAL, there are differing

opinions on its operation and effectiveness. Thus, researchers tested the compliance variable to know how much impact of this variable compliance by a couple of auditee satisfaction and perceived service quality in the SMEs firms compliance (Parasuraman, A., Zeithaml, V., & Berry, 1988; Parasuraman et al., 1985; Siddiqi, 2011)

Conceptual framework

A conceptual model is highly-developed based on the reviewed service quality literature to empirically test the interrelationships between satisfaction, perceived service quality, and compliance. In this conceptualized model, happiness is the predictor influence compliance through perceived service quality as a mediator.

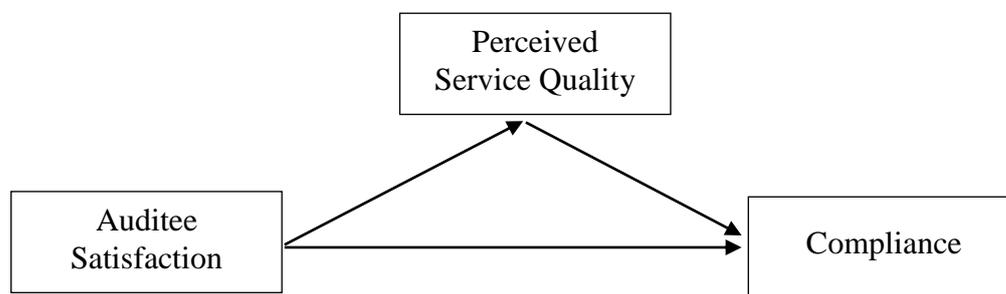


Figure 2. Conceptual Framework

Figure 2 depicts this conceptualized research model. The hypotheses are developed as per below:

- H1:** Satisfaction is significantly influence perceived service quality
- H2:** Perceived service quality is significantly influenced compliance
- H3:** Satisfaction is significantly influenced compliance
- H4:** Perceived service quality mediates in the relationship between satisfaction and compliance

4. RESEARCH METHODOLOGY

Research Variables and Operational Definitions

The operational definition developed below is based on the literature review and clarify the effect of auditee satisfaction as an independent variable, perceived service quality's role as an independent and mediating variable on compliance in the auditing service sector. It provides a theoretical foundation and develops research hypotheses.

Auditee Satisfaction

Auditee satisfaction is a measure of how services are supplied to audtees. To develop service standards and techniques, auditors have to be willing to understand the gap between audtees' perceptions and expectations (Parasuraman et al., 1985). Customers' decisions are affected by

the service support available after the delivery of the service. Delivery of high-quality service helps to build and maintain long-term relationships with SMEs customers. As a result, audit firms try to work on customer retention and market share by aiming at unique target markets. How service quality in Malaysian audit firms affects customer satisfaction is the central core of the current study. The rapid growth of the Malaysian audit service sector creates a competitive environment and makes auditors understand customer perceptions of service quality to attract customers in a competitive market.

Perceived service quality

Several authors have tried to conceptualize perceived service quality with varying illustrations through their work, especially about the dimensions applied in their studies. Gronroos (1984), in his seminal paper on service quality, defined the perceived quality of a given service as the result of an evaluation process, in which the consumer compares his expectations with his perception of the service received; in other words, he places the perceived usefulness and the expected service opposite one another. In the same study, consumers consider two factors when evaluating service quality: functional quality and technical quality. The latter is service delivery, and the former is what consumers receive from the service.

Compliance

A compliance audit is a comprehensive reassessment of an organization's adherence to regulatory guidelines. Audit reports evaluate the ability and thoroughness of compliance preparations, security policies, user access controls, and risk management procedures over a compliance audit.

This research study examined and determined the mediating effects of service quality as an independent variable and auditee satisfaction as a dependent variable in the Malaysian venture capital firms (MADCAP). There are several types of research purposes, such as exploratory, descriptive, and explanatory. In this study, descriptive was the method chosen. Descriptive research explains a study systematically, factually, and accurately utilizing facts, behaviours, and the effects of the phenomenon being hypothesized (Saunders, Lewis, & Thornhill, 2013). It is often used to study people and organizations' general conditions as it seeks people's behaviours and options, usually through questioning (Salleh et al., 2012). A descriptive study collects data to answer questions concerning the current status of the subject matters under investigation. The design was considered suitable for the research because it came up with findings that showed the current situation and effect of the mediating role between audit service quality and auditee satisfaction of Malaysian venture capital firms.

Different methods, such as surveys, interviews, archival, ethnography, grounded theory, case studies, and action/participatory can be executed (Hair et al., 2010; Saunders et al., 2013). However, a survey was adopted and conducted among the audit firms' audit firms to

understand their perspectives on the standard service role as a mediating effect between audit service quality and auditee satisfaction.

Research and Discussion

PLS-SEM was chosen relative to CB-SEM (Covariance-based SEM) because of its philosophy of measurement and the objective of the analysis. PLS-SEM approach was conducted by assessing the size and structural models (Joseph F. Hair Jr., William C. Black, Barry J. Babin, 2019).

Descriptive Analysis

Table 3 depicts the demographic profile of the respondents. It shows that majority of the respondents were males (56.5%) and females (43.5%). The department comprised of accounting (44.4%) as majority, followed by finance (35.2%), administration (12.5%), auditors (7.4%), and insurance (0.5%). Malay was the leading race among the respondents (73.1%), then Chinese (13.0%), and next, Indian (13.9%). The religion was led by Muslims (72.7%), Buddhists (13.4%), and Hindu Christians (13.9%). As for the respondents' educational background, 66.8% had a bachelor degree, 24.10% who have a master degree, 0.5% had a PhD, and 8.8% were others level of education. The result can be seen in Table 3 as follow:-

Table 3: Profile of the Respondents

| Characteristic | Description | Frequency | Percentage (%) |
|--------------------|--------------------|-----------|----------------|
| Gender | Male | 122 | 56.5 |
| | Female | 94 | 43.5 |
| Department | Auditor | 16 | 7.4 |
| | Financial | 76 | 35.2 |
| | Accounting | 96 | 44.4 |
| | Administration | 27 | 12.5 |
| | insurance | 1 | 0.5 |
| Age | below 25 years old | 46 | 21.3 |
| | 25-35 year old | 42 | 19.4 |
| | 36-45 year old | 68 | 31.5 |
| | 46-55-year-old | 54 | 25.0 |
| | over 56 years old | 6 | 2.8 |
| Race | Malay | 158 | 73.1 |
| | Chinese | 28 | 13.0 |
| | Indian | 30 | 13.9 |
| Religion | Muslim | 157 | 72.7 |
| | Buddhist | 29 | 13.4 |
| | Hindu Cristian | 30 | 13.9 |
| Level of education | PhD | 1 | 0.5 |
| | Masters | 52 | 24.10 |

| | | | |
|--|----------------------|-----|------|
| | Undergraduate/degree | 144 | 66.7 |
| | others | 19 | 8.8 |

5. DATA ANALYSIS DAN RESULTS

The measurement and structural models were tested using structural equation modelling (SEM). The component-based partial least squares using the Smart PLS statistical approach was performed to evaluate the psychometric properties of measurement scales and test the research hypotheses proposed in this study. SEM enables the simultaneous examination of both the path (structural) and factor analysis (measurement) models in one model. For this study, the sample size is 216, and PLS focuses on predicting data and is better suited for exploratory models; it is considered more adequate.

Measure Validation

Construct Reliability

Reliability that is concerned about stability and consistency issues in this study refers to the likelihood that constructs measurement procedure that has been utilized will yield the same description of a given phenomenon if the measurement is repeated. The current study assessed reliability using Cronbach's alpha, Composite reliability (CR) and average variance extracted (AVE). As shown in Table 2, the Cronbach's alpha for the research constructs ranged from 0.864 to 0.957 and therefore surpassed the recommended threshold suggested by (Hair, Anderson, Tatham, & Black, 2017). The CR values also ranged from 0.911 to 0.969. All in all, the constructs' reliabilities are acceptable and, therefore, a good measure of the model.

Construct Validity

Construct validity is interested in the degree to which the construct itself is measured. In this study, convergent validity and discriminant validity are used to confirm construct validity. Concurrent validity refers to the magnitude to which a construct's measure is correlated or related to other measures of the same construct that is theoretically predicted to correlate or relate to. Discriminate validity means that the measurement instrument must discriminate or differentiate the construct being studied from other similar constructs. (Hair et al., 2010; Joseph F. Hair Jr., William C. Black, Barry J. Babin, 2019)

Table 2: Measurement Model

| Constructs | Items | Loading | Cronbach's Alpha | CR | AVE |
|-------------------|-------|---------|------------------|-------|-------|
| Satisfaction | SAT1 | 0.941 | 0.907 | 0.934 | 0.782 |
| | SAT2 | 0.959 | | | |
| | SAT3 | 0.741 | | | |
| | SAT4 | 0.880 | | | |
| Perceived Service | PSQ_1 | 0.920 | 0.864 | 0.911 | 0.724 |

| | | | | | |
|------------|--------|-------|-------|-------|-------|
| Quality | PSQ_2 | 0.926 | | | |
| | PSQ_3 | 0.902 | | | |
| | PSQ_4 | 0.616 | | | |
| Compliance | COMP_1 | 0.929 | 0.957 | 0.969 | 0.887 |
| | COMP_2 | 0.966 | | | |
| | COMP_3 | 0.974 | | | |
| | COMP_4 | 0.896 | | | |

Convergent Validity

Individual item loadings, together with AVE, captures the convergent validity of each of the measures for constructs that are modelled reflectively. Table 2 shows all reflective measurement items have high and significant loadings as they surpass the recommended benchmark of 0.7 recommended by Hair et al. (2017) and, therefore, indicating their considerable contribution to the measured construct. The AVE for all constructs exceeded 0.50 (ranging between 0.724 and 0.887), thus supporting the measurement items' convergent validity.

Discriminant Validity

Three approaches were used to confirm discriminant validity. First, the study checked if the correlations between research constructs were below a unit value (1.0). The maximum correlation value between constructs is 0.685; it is lower than the value of 0.8 recommended by Fraering & Minor (2006) as evidence of discriminant validity. Second, the study checked if the AVE's square roots' values are all greater than the inter-construct correlations. The results showing in Table 2 and Table 3 indicates that all measures have appropriate discriminant validity. Finally, an additional test of discriminant validity assesses each measurement item to ensure that it has a higher loading on its assigned factor than other factors (Gefen et al. 2000). Again, as indicated in Table 2, each measurement item loads higher on the appropriate construct than on any other construct, providing additional support for the measures' discriminant validity. All in all, the study provides sufficient evidence that the measurement scales used are reliable and valid.

Table 3: Correlations between constructs

| Construct | Compliance | Perceived Service Quality | Satisfaction |
|---------------------------|------------|---------------------------|--------------|
| Compliance | 0.942 | | |
| Perceived Service Quality | 0.685 | 0.851 | |
| Satisfaction | 0.242 | 0.194 | 0.884 |

Hypotheses Testing

To estimate the structural model paths coefficients and each path's statistical significance, this study uses Smart PLS 3.3 with bootstrapping as a resampling technique (5000 random samples). The path coefficients and the R² are jointly used to evaluate the model, while the error estimates and t-values were used to check the statistical significance (Chin, 1998). Figure 2, Table 4, presents the PLS analysis results. The statistical significance of the path coefficients allows us to see which hypotheses were supported.

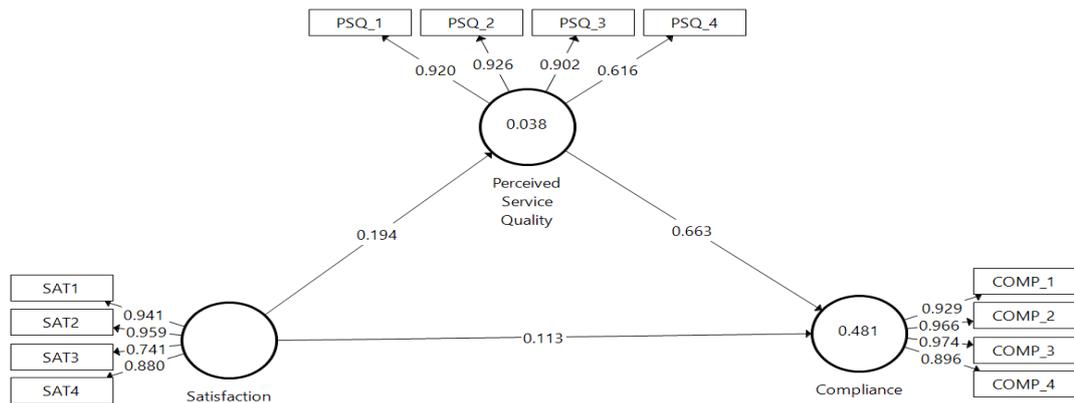


Figure 1. Measurement Model Results

As indicated in Figure 1, R² for “perceived service quality” and “compliance” are 0.038 and 0.481, respectively. This implies that these dependent variables (i.e., “perceived service quality” and “compliance”) explain at least about 3.8% and 4.81% of the model, respectively. The t-statistics for "satisfaction→perceived service quality", “perceived service quality→compliance”, and "satisfaction→compliance” provided in Table 4 are 2.288, 20.835 and 2.667 respectively. All in all, these measures are considered statistically significant and, therefore, confirming that all the posited relationship paths presented in Figure 2 and Table 4 are positive (H1, H2, H3) supported. Next, the mediation analysis will be tested for H4.

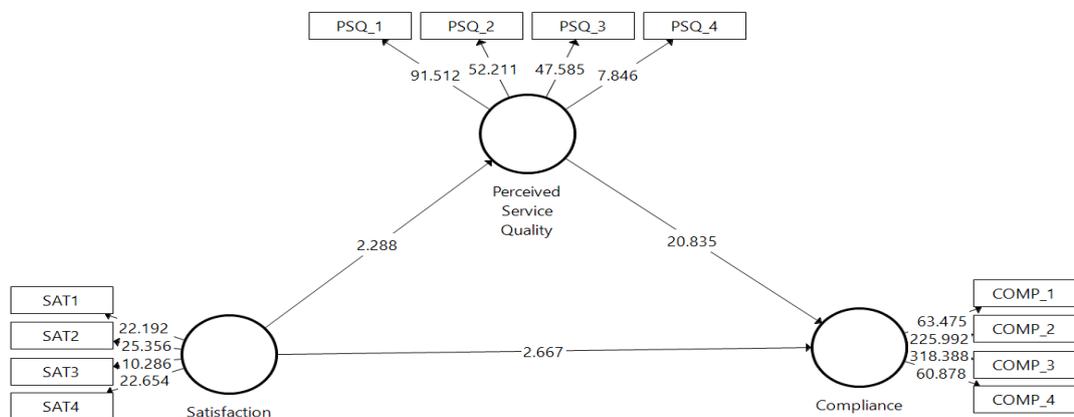


Table 4: Results of Structural Equation Model

| | Original Sample | Standard Deviation | T Statistics | P Values | Result |
|--|-----------------|--------------------|--------------|----------|-----------|
| H1: Satisfaction → Perceived Service Quality | 0.194 | 0.085 | 2.288 | 0.008 | Supported |
| H2: Perceived Service Quality → Compliance | 0.663 | 0.032 | 20.835 | 0.000 | Supported |
| H3: Satisfaction → Compliance | 0.113 | 0.042 | 2.667 | 0.022 | Supported |

Hypothesis (H1) posited a positive direct relationship between “satisfaction → perceived service quality”. The results are shown in Figure 2, and Table 4 support the idea with the significant relationship ($\beta = 0.194$). This result supports the belief that increased satisfaction of customer enhances the perceived service quality among consumers.

Hypothesis 2 (H2) predicts that increased levels of perceived service quality enhance compliance. The results shown in Figure 2 and Table 4 again support this hypothesized relationship with a robust and significant relationship ($\beta = 0.663$). This finding provides support for a positive relationship between perceived service quality and compliance context.

Hypothesis 3 (H3) posited a positive relationship between satisfaction and compliance. The results in Figure 2 and Table 4 show a significant relationship ($\beta = 0.113$) and, therefore, support the theorized relationship. This finding highlights the increased satisfaction of the consumer and increases the compliance needed.

Mediation Analysis

The bootstrapping analysis per Table 4 revealed that hypothesis 4 is significant. The Satisfaction → Perceived Service Quality → Compliance indirect effect $\beta = 0.128$ was substantial with a t-value of 2.270.

Table 4: Mediation Analysis

| | Original Sample | Standard Deviation | T Statistics | P Values | Result |
|---|-----------------|--------------------|--------------|----------|-----------|
| H4: Satisfaction → Perceived Service Quality → Compliance | 0.128 | 0.057 | 2.270 | 0.023 | Supported |

Thus, it can conclude that the mediation effect of perceived service quality between satisfaction and compliance is statistically significant. Therefore H4 is supported.

6. DISCUSSION AND CONCLUSION

The study, therefore, showed that auditee satisfaction and perceived service quality have a positive relationship towards compliance and perceived service quality has a full mediating effect between auditee satisfaction and compliance. This is especially true if companies still want to maintain their existing clients in a highly competitive advantage. The study also showed that the researcher might infer that the auditee believed that no matter which audit firms they choose, it should have a certain degree of service quality guaranteed as the highly competitive advantage. This indicates that auditee's hope for more auditee satisfaction perceived service quality compliance from their audit firms in selecting the best audit firms between small and medium practitioners (SMP). This result made sense as most of the fieldwork was carried out at the auditees' sites. If an audit firm needed to maintain highly competitive advantages, more auditees' concerns are required.

Recommendation

The study results are expected to contribute to the auditing literature related to the desired services' roles and theories as a mediating effect of perceived service quality, the relationship between auditee satisfaction and compliance. This study did not yet express all variables that could affect the variables between auditee satisfaction and compliance. There are corporate image and auditor specialization. The researchers were confident that the above variable is essential and significant in the field of auditing nowadays.

The study was easily tailored for Malaysian small and medium firms to perceive that they prefer an audit firm. Following this study, the researchers are motivated to study the same by analyzing other transportations, hotel industries, medical services, Malaysian venture capital firms, and unlisted companies.

Acknowledgement:

The authors would like to express their gratitude to the editors and the anonymous reviewers for their helpful and constructive feedback to improve this article. The first author would like to gratefully thank the Suruhanjaya Syarikat Malaysia (SSM), Small and Medium Enterprises (SMEs), and Malaysian venture capital firms for providing initial information about their organizations.

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