

# CROSSING THE DIVIDE

BEHAVIORAL RESEARCH IN AUDITING

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# **CROSSING THE DIVIDE: BEHAVIORAL RESEARCH IN AUDITING**

Inaugural address

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# Chapter 1 – Don't you mean “bridging the divide”?

Dear Rector Magnificus,  
Dear Dean,  
Distinguished Professors,  
Dear students,  
Honorable colleagues and former colleagues,  
Dear esteemed fellow researchers,  
Dear fellow members and stakeholders of the auditing profession,  
Dear family and friends,  
And all others of you who show your interest through your presence here today,

It was in his laudatio, just after my PhD defense at the University of Groningen in 2010, that one of my PhD thesis supervisors, Jaap van Manen, said to me: “You should become a bit more like Maarten van Rossem”. For those of you unfamiliar with the phenomenon of Maarten van Rossem, apart from being a historian, professor, and writer, specialized in American history and politics, he is especially known for his cranky personality – being stoic, apathic, and indifferent. He masters the art of being very clear, yet sarcastic and critical in his commentaries or responses to whatever questions.

I have taken Jaap's fatherly advice to heart but have hardly succeeded. I know that I tend to want to be friendly and liked. Some may call it a strength, but I also see it as my pitfall. It is not without reason that my second PhD supervisor, Slawomir Magala at Erasmus University in Rotterdam, taught me to be more critical. But that I have failed in my mission has again been made painfully clear recently, when a one of my fellow FAR board members and head of audit at one of the Big 4 audit

firms said to me: “Really Olof, you don’t have to be nice all the time. Just tell me if I need to step-up my responsibilities in delivering on our research commitments”. A piece of friendly advice well appreciated – mutually I believe.

And even my wife does not believe I can say anything critical at all, or exciting for that matter ... She says I am nuancing away everything. Not at home that is..., but in all my professional writing, lectures, or media interviews. Not that she has read any of my academic work, though. She doesn’t need science to tell her how the world works... She is possibly more Maarten van Rossem than I am...

So, to prove you wrong – to prove to you all that I *can* be as grumpy as Maarten van Rossem, I’m going to say something really not nice today. Something really critical. This is the moment, my inaugural address, it’s now or never...

Well, maybe, before we go there, I need to explain something about the title of my inaugural address: “Crossing the Divide”. Some people asked me: “Don’t you mean ‘bridging’ the divide?” Crossing is really going to the other side. Something definitive. Leaving one side behind and not coming back. “But that’s not you”, they say: “You are a bridge builder”. “Well, no...! I do mean crossing”, I responded, “Come to my inaugural address and I will explain”. Also, bridging the divide sounds so well behaved, so courteous, so predictable. And I don’t want to be well behaved, courteous, and predictable ... At least, not today...

I did research it a bit online though: the meaning of “crossing the divide”. I came across books: most notably the book of Kai Hammerich and Richard Lewis (2012): “Fish can’t see water: how national cultures can make or break your corporate strategy”. Tell me about it, I spent my PhD thesis (Bik 2010a) on that topic... Or the book by Todd Pittinsky (“Crossing the divide – Intergroup leadership in a world of differences”) that kind of comes in the right direction. His book is about creating common ground for “those who do the work of *bridging* groups together, for all our good”. Bridging thus...

And I came across a TEDx talk of Jim Henderson. He says: “People who don’t agree with us, we call *lost*”, and points to the virtues of being mutually interested in each other, staying in the same room despite differences, and stopping comparing “my best with your worst”. He continues by saying: “If you simply don’t talk, amazing things can happen”. He notes that what is lacking, is a roadmap. Crossing the divide to me is exactly providing that roadmap. Exploring the path forward. Guiding the way. *Sometimes you have to cross the divide first – in order to bridge it later.*

Oh yes, Maarten van Rossem. I was going to say something critical in my inaugural address...

Although, while writing this inaugural address, I thought I would better allow myself some nice and easy approach before going out of comfort zone. So, I will first provide you with some context and touch upon the following three “crossings” in this inaugural address:

- Crossing 1: from auditing to culture and behavior
- Crossing 2: from practice to science
- Crossing 3: behavioral research in auditing

No, I’m not shying away from the challenge I imposed on myself and will provide a Rossem-ish critical conclusion in chapter 5. It is already hard enough for me as it is...

Not that I fear not being liked... But then again, who doesn’t want to be liked...? Well, ... I know of one person...



## Chapter 2 – Crossing one: from auditing to culture and behavior

It was a sunny Spring day in 2008 when my former colleague at PwC posed the question. I just switched from doing financial statement audits to building this new business within PwC called “Behavioral & Cultural Governance”. He said: “Hey Olof, all well and good with that cultural stuff of yours, but please make sure you keep both feet on the ground okay”. That was not nice to hear at that moment. Although he was kind of right. I think he felt a bit guilty about that remark afterwards, because a couple of years later he moaned a bit about me having built this new, cool, albeit not yet profitable business, while he still stuck in daily routine. Well, I replied: “What is keeping you from crossing your own divide...?”

In hindsight I think that he may have been one of the first to see my 1<sup>st</sup> crossing of a divide: the divide between auditing and “culture and behavior”.

### **Auditing**

Let me be clear: I still love auditing. Auditing contributes to the broader societal objective of providing high-quality corporate information for decision-making, management and control of organizations, and good corporate governance. It is the auditor that helps organizations to be a reliable business partner to their stakeholders: to do what they say and to say what they do. The auditor thus plays a meaningful role in making it possible for organizations to achieve their objectives. I tend to view the role of the auditor as *enabler* of organizational success. “Accountants will save the world” professed the Chairman of the World Business Council for Sustainable Development, Peter Bakker, in 2016. And rightly so. I have many examples I share with my students to convince them of that.

Let me give you one example. There was this article in the Dutch Financial Times with the heading: “Company ABC saved by owners”. This was a family owned business in the housing construction industry. Their mission is: “building beautiful residences”. However, the capital reserves were shrinking during the financial crisis – down to a level at which the banks were not willing to lend anymore, at which suppliers were not willing to supply construction materials anymore, and at which property agencies were no longer willing to do business anymore. In other words, they were not able to build beautiful residences. It was the auditor who reported the issue of shrinking reserves for three years in a row. But the issue with a family business is of course, that if you pay out dividends and uncle John can buy a new boat, everybody is happy. However, if you ask uncle John to provide additional capital and he has to sell his boat, that is a more difficult story. But the auditor persisted, year after year. And eventually, the capital reserves were supplemented to such levels that banks were willing to co-finance again, suppliers were willing to supply goods again, and property agencies were willing to do business again. And the company could again “build beautiful residences”. So, instead of the heading in the newspaper that the company was saved by its owners, for me the headings should have been: “Auditor saved company ABC!”.

Yes, accountants will save the world.

In recent years there has been much to do about the quality of the external financial statement audits. Here in the Netherlands societal trust in the audit function has declined – rightfully or wrongfully – since a number of corporate reporting failures. Responses from within the auditing profession as well as from regulators and public policy makers range from the 53 improvement measures of the Dutch Future Accountancy Profession Working Group (2014) of the Dutch Professional Body of Accountants to the establishment of the Committee on the Future of the Auditing Sector that will present its advice to the Dutch Minister of Finance at the end of 2019 on potential interventions to be considered to further strengthen the quality of external audits.

I would like to share two perspective that I think are of particular relevance in the current public debate:

1. High audit quality can be defined as “greater assurance of high financial reporting quality” (DeFond and Zhang 2014). In other words: “greater assurance that the financial statements faithfully reflect the [audited] firm’s underlying economics, conditioned on [*and this is important, OB*] its financial reporting system and innate characteristics” (DeFond and Zhang 2014: 275-6). The latter clearly recognizes that audit quality is a co-determinant of *financial reporting quality* that is bounded by the [audited] firm’s reporting system and innate characteristics” (p.313).

This definition of audit quality reflects the pure reality that “financial reporting quality and audit quality are often inseparable in terms of observable financial reporting outcomes” (Gaynor et al. 2016: 2). This interdependence means, for example, that “if a firm has high pre-audit financial reporting quality, then the level of audit quality is generally unobservable because the observable outcome will be higher [financial reporting] quality *regardless* of the quality of the audit” (Gaynor et al. 2016: 6, emphasis added). In other words, is it the audited company who has simply delivered excellent pre-audited financial statements, or is it the auditor who brings moderate annual accounts to a higher level?

Gaynor and colleagues continue in this line of thinking by noting that “it is likely that expectations about audit quality affect [this] pre-audit financial reporting quality” (Gaynor et al. 2016: 7). In other words, in the case that the pre-audited financial statements are so good that the auditor does not detect any errors and no adjustments need to be made, that does not mean that the auditor has had no added value or hasn’t delivered a high-quality audit. This is what should be seen as the *preventive* effect of an audit.

This all not only unambiguously underlines that the auditor contributes to a broader goal (“*audit quality as a component of financial reporting quality*”), but also that audit quality is an inseparable part of the entire corporate reporting and assurance supply chain (“*bounded by the [audited] firm’s reporting system and innate characteristics*”). This is what my colleague from University of Florida Robert Knechel, also academic member of the FAR Board, in his key note (based amongst others on Knechel 2018; Knechel, Thomas, and Driskill 2019) at the 4<sup>th</sup> annual conference of the

Foundation for Auditing Research last June here at the Nyenrode estate, calls the “collaborative network”. Auditing is an economic service – an economic service wherein the relevance of auditing is in the *joint* production of reliable corporate information. This raises the question whether it isn’t the auditor’s knowledge and collaboration with the auditee – rather than independence – that actually strengthens audit quality (“the effect that appropriate coordination within the reporting supply chain can have on audit quality”, Knechel 2018, p.40).

2. It is for this reason – that financial reporting quality and audit quality being intertwined – that I posit that the auditing profession should dare to choose for this financial-reporting-level definition of audit quality (“*greater assurance of high financial reporting quality*”), which is in line with the expectations stakeholders and society have of the auditor (contributions to “high financial reporting quality”). In case of a financial reporting quality issue or failure, of course it also casts a slur on the work of the auditor – but the auditor would also have a better story to tell: the reality that financial reporting quality – and thus also financial reporting issues and failures – is a joint responsibility of at least a number of parties in the entire financial reporting and assurance supply chain. Not only: where was the auditor? But also: where was the accounting department of the audited company? Where was management? Where the internal auditor? Where was the audit committee...? All parties need to play their role.

My own PhD students actually challenge me on this position. Frank Duijm, for example, recently articulated what I think at least some of you here present today will also be thinking: “Yeah right, but the auditor can’t hide behind the higher-level financial reporting quality. If you encounter a “bad client”, the auditor should simply increase his efforts, and align his audit plan (i.e., nature, timing, and extent of his audit procedures) with the audit production needing to meet the idiosyncratic nature of the audited organization”. Frank articulates the critique of Palmrose and Kinney, that DeFond and Zhang “expresses a personal (and impracticable) normative view and not the auditor’s actual responsibility or practice under extant [auditing] standards” (Palmrose and Kinney 2018). They focus on what may better be called audit *process* quality.

It is indeed this focus on audit *process* quality that PhD student Tjibbe Bosman, in turn, challenged recently by questioning why it seems to be that the public and the auditing supervisor, AFM, only conclude that audit quality is at par when the audit *file* is graded with a 10 (out of 10). Audit *process* quality is not the same as audit *outcome* quality, he underlines. With that he articulates DeFond and Zhang's response to Palmrose and Kinney (DeFond and Zhang had Clive Lennox join their camp...): “[PK’s] *‘technical compliance’ view portrays GAAP as a set of black and white rules and auditing as a box-checking exercise. (...) We show that the compliance mindset advocated by PK is responsible for many audit failures. (...) Unfortunately, it is also a view that has greatly damaged the credibility of the auditing profession*” (DeFond, Lennox, and Zhang 2018).

The last word probably hasn't been said in this “fight of the titans”, but I do want to note that it was a high ranked official of the Dutch Authority for the Financial Markets (AFM, the external supervisor on audit quality in the Netherlands) who publicly confirmed, upon my asking, that the AFM does not capture full audit (outcome) quality, but audit *process* quality. Audit file reviews (by the audit firms themselves, by the AFM or by the PCAOB) are informative with regards to the technical implementation of the audit or – and that is debatable, so it was recently concluded in higher court in the Netherlands – the audit firm's quality control systems. But file reviews cannot conclude on ultimate audit quality. Yet, when the AFM reports to have found issues in the audit files of 45% of the selected audits – small or large and irrespective of any real economic significance in financial reporting quality – the public *narrative* is that 45% of audits fail...

That is complete nonsense, Maarten van Rossem would say...

Telling the story of the financial-reporting-level definition of audit quality (“greater assurance of high financial reporting quality”) will enable the profession to paint the complete picture and tell it like it *really* is. The profession will otherwise continue to be unduly besmirched.

We need to speak to the professional identity and pride of the future generation of auditors. To our students here in the Nyenrode Accountancy

degree programs, which I have the pleasure of co-leading with Gemma Boender, Marjolijn Oussoren, and Constant Rams. This story of the societal contribution of the auditor and the auditor as enabler of organizational success has so much more appeal to future auditing talent.

### **Culture and behavior**

Why then did I ever quit auditing...? Well, maybe I haven't. My "transition" into behavioral research in auditing started with the realization, back when I was a practicing auditor, that we suffer from what I call "control-obesity" (Bik, 2010b). Things may appear to be perfectly under control – and if it isn't, we tend to simply add an additional rule, policy, or procedure. But despite the existence of an already extensive set of professional auditing standards and rules of conduct, it is possible that the problem of audit failures doesn't lie with additional standards – but with the behavior of auditors themselves.

Let me give you a personal example: in one of my first years as a junior auditor, it was my job to count the petty cash. Mostly too small an amount to be important to the financial statements. But if you want to find small fraud, that is a place to look for it. Audit methodology is pretty clear about when you should audit and count the petty cash: at an unannounced, unexpected moment – to prevent the one administering the petty cash, to settle any unaccounted cash withdrawals. So, there I went. Off to the petty cash administrator. "Good morning, I would like to count the petty cash please", I said. The administrator replied: "That is fine of course, but this is not really a good time. Could you please come back tomorrow?". As service oriented as I was, my answer was: "Yes, of course, no problem". Only to find my senior auditor laughing out loud and ready to teach me a basic auditing lesson...

The point here: the standards are clear – still it went completely wrong. There must be something else going on then. Something about mindset, values, and beliefs that results in certain behavior? This question was the trigger for my PhD research on the behavior of assurance professionals (Bik 2010a). This in turn resulted in establishing a new assurance practice within PwC, called Behavioral & Cultural Governance, in which we helped audit teams assess behavioral and cultural risk at the audited organization and

advised non-audit clients on “soft controls”. Many audit teams nowadays structurally include behavioral and cultural aspects in their risk assessments.

Then in 2012, when at Nyenrode, I had the pleasure co-develop the Behavioral & Cultural Governance program here at Nyenrode –with, amongst others, Edgar Karssing, Roy Kramer, and Peter Robertson. An executive education program on effectively managing organizational culture and behavior in organizations. This extracurricular endeavor took me out of auditing initially, although we also did successfully run “the partner academy” for all partners of one of the audit firms.

But it was what in the Netherlands was called the notorious “Freaky Thursday” on September 25, 2014 that marks my specialization in the auditing profession. With the publication of three important reports on the status and plans for improvement of the auditing profession, amongst which from the AFM and NBA, culture or audit firms and behavior of auditors were put forward as a catch-all antidote to audit quality issues. The profession had embraced the 53 measures proposed by the Working Group on the Future of the Profession, with culture and conduct as one of the common threads.

It is indeed the professional behavior of auditors, amongst which their judgement and decision making, professional skepticism, and interactions with their clients and within their audit teams, that determines the quality of a financial statement audit – and, by extension, the quality of the associated financial reporting that capital markets, stakeholders, and society at large base their business decisions on (e.g., Knechel 2000; Griffith, Kadous, and Young 2016). So, if there is an audit quality problem, we need to realize that auditors are human too – really – and thus, that there is no such thing as zero risk in conducting audit work. It is possible that such risks can never be fully addressed through regulation and professional intervention alone – these could even lead to unintended consequences.

Auditors nowadays are increasingly asked to evaluate nontraditional and nonfinancial performance measures and rely on data-driven audit techniques as part of their audit. Indeed, as Knechel notes: “audit evidence comes in many sizes and shapes, ranging from the relatively concrete to the

very nebulous. This is a fact of life in the audit environment. (...) Answers within an audit are rarely clear-cut and (...) one's professional judgment is critical to a satisfactory outcome of an [audit] engagement" (2000, 708, 710). The significance of auditors' professional behavior to a broad array of decision problems under a wide range of conditions is greater rather than smaller in contemporary complex, data rich environments. My view is that this will be increasingly the case in future development of the auditing profession – while new audit techniques and tools may make the audit more efficient and substantively more effective, reaching a conclusion on the true and fair view of an organization's underlying economics requires extensive judgment on the part of the auditor, amongst others to gauge management intentions and assertions underlying their (financial) representations.

In the meantime, culture and behavior are increasingly seen as instruments of corporate governance and internal control. In the auditing profession too, audit firm leaders, standard setters, and oversight bodies point to a "quality-oriented culture" as the catch-all resolve to restore public trust in the profession (e.g., IAASB 2014; NBA 2014; IFIAR 2015; PCAOB 2015). In its audit quality framework, the IAASB (2014) notes the culture prevailing within the audit firm as one of the most important input factors to create an environment for audit quality – as audit firm culture "has an important influence on the values, ethics and attitudes of audit partners and other members of the engagement team because the environment in which the engagement team works can materially affect the mindset of partners and staff, and consequently the way they discharge their responsibilities" (p. 9).

I think most audit firms run cultural and behavioral change programs to strengthen audit quality. With the "Culture Monitor" for audit firms that my colleague from Amsterdam Jan Bouwens and I developed for the Dutch professional body of accountants, the NBA, we contribute to such programs ourselves. Provisional, yet to be published findings do indicate that audit firms' quality-oriented culture is changing for the better compared to two years ago. For example, survey respondents perceive audit firm management to voice a clearer vision on audit quality, partners to be more open to discussing quality dilemma's, audit engagements to be rejected or terminated in case of quality issues, and more time and resources to be provided to do a proper job. Provisional results furthermore show that this

quality-oriented culture results in more clarity for audit staff on how to contribute to audit quality, a strengthened learning climate, and more room to discuss audit technical dilemma's. All may be seen as precursors of higher audit quality. It shows that audit firms are willing and able to change.

We need to be careful though. Positioning the governance of “culture and behavior” as a counterbalance to the increased levels of regulatory and societal pressure on the auditing profession, runs the risk of relegating it to nothing more than a checklist of instrumentally applied “culture controls”. Although well intended and surely applauding the focus on culture and behavior, this would, unsurprisingly, not solve the problem.

We risk instrumentalizing organizational culture and behavior – presenting culture and behavior as a catch-all antidote to quality issues. With that ignoring the propensity of a culture's natural capacity to drive organizational performance and health. However, it is not governance policies alone that drive and control behavior. Rather, it is the most mundane of everyday activities and occurrences that have normative behavioral meaning. Auditors in practice interpret those signals to infer what is really valued within the organization – which in turn guides their behavior. Thus “a better understanding may be needed of *the forces affecting* individual judgment and decisions if the incidence of audit failures is to be significantly reduced in the future” (Knechel 2000, 701, emphasis added). With the increased focus on culture and behavior in managing a “quality-oriented culture” within audit firms it is my ambition to scientifically inform the continuous development of the auditing profession – and, with that, contribute to shaping the future design of the professional context for auditors as to safeguard audit quality for the next generation of auditors. Through research and through teaching.

Teaching wise, it is shaping this next generation of auditors why it is a true pleasure and humbling service to me to now be co-leading – jointly with Constant Rams – the university degree programs I attended myself: the Nyenrode Accountancy Bachelor, Master, Post Master, and Professional Practice program. My research focus contributes to our educational philosophy of the “Robust Auditor”. A Robust Auditor helps organizations to be a trustworthy business partner to its stakeholders, looks beyond the

numbers for the underlying economic substance, and has the backbone to ask probing questions when needed, with respect for the “professionally intimate” relationship with the auditee. A Robust Auditor focuses on professional, academic, and personal development, and has learned to find his / her way in today’s demanding daily practice and societal expectations. I am proud that Nyenrode was one of the first movers with enriching its Accountancy curricula with behavioral aspects, most notably in the Professional Leadership Development Journey – which preceded the new educational end-terms of the CEA in relation to Behavior, Ethics, and Culture recently implemented. It is when students tell us that Nyenrode has shaped them to become the better professional they are – and they do tell us that at graduation for example – that is our biggest reward.

I may have wandered across the divide for a couple of years – through the world of organizational culture and behavior in other fields. But always with one eye on the auditing profession. It was one of my PhD supervisors who challenged me at the start of my thesis to pick a topic that would be “hot” in ten years’ time. In despair at that very moment, I couldn’t have expected that I now – 15 years after the start of my thesis – can spend all my time on culture and behavior in the auditing profession that is so dear to me.

It was Joost van Buuren, auditing professor at this very university, who greeted me a couple years ago by saying: “Welcome back to auditing, Olof”.

So, that bought me some time before being more like Maarten van Rossem. To delay having to be really critical and saying something unseemingly me, please let me continue with my next “diversion”.

## Chapter 3 – Crossing two: from practice to science

I once was what could be called a “pracademic” – maybe I still am. But after combining working in the auditing practice of PwC and teaching and doing academic research at the same time for the 10 years I was at University of Groningen, I concluded I couldn’t continue to do both. If you want to strive for the best, either requires full dedication. Some still combine a high-profile position in the auditing profession with being a professor at a university – and some of them do have a *very* meaningful contribution to the future development of the auditing profession – nothing but respect. But I couldn’t do what they do. All in all, I think we will see those combinations less and less – evidenced by quite a number of them either resigning with the firm or with the university – if only it were due to the increasing demands for getting published in the highest-level scientific journals. High quality research requires time and full dedication to become productive. A level of research at which even full professors are not always able to actively participate in or seriously contribute to, let alone those combining it with other major responsibilities or positions.

It was in 2012 that Robert Kamerling, who was my Master thesis supervisor back in 2002, who created the opportunity for me to join the academic community and focus entirely on teaching and research at Nyenrode Business University. When I told the head of audit at PwC at that time, his response was: “Go and invest in your academic research. See you back here in a couple of years”. I guess he marked my 2<sup>nd</sup> crossing of a divide: that from practice to academia.

### **From practice to science**

It took me a while to get my research production on track. Since joining Nyenrode almost seven years ago, I would qualify the first years as

transitioning back into academia. These years proved to be fruitful, resulting in a healthy pipeline of research projects as well. But I have learned that it takes time, strong collaborations with colleagues, teamwork, and discipline, focus, and execution power.

For example, it took me till 2015 to get a first chapter of my 2010 PhD thesis published in *The Routledge Companion to Cross-cultural Management* (Bik 2015). And it took another two years to publish my paper with my colleague from Groningen, Reggy Hooghiemstra, on the effect of national culture on partner involvement in *Auditing: A Journal of Practice & Theory* (Bik and Hooghiemstra 2017). The pace increasing, but yet another year for our second paper in *AJPT* on cultural differences in auditors' compliance with audit firm policy on fraud risk assessments procedures (Bik and Hooghiemstra 2018). What we found in this research, by the way, is that the auditing profession may have consistent global auditing standards like the International Standards on Auditing and audit firms may have globally implemented audit methodologies, consistency in application locally remains to be an illusion. Cross-national cultural differences come into play here. An auditor's cultural background matters in the way he / she conducts an audit. "But we are talking about auditing in the Netherlands, right? So, why bother?", you may say. Well, with an average Big 4 office in Amsterdam working with people from at least 15 or so different nationalities, it would be interesting to see how these cultural differences play out in a culturally diverse audit team here in the Netherlands being led by a Dutch audit partner. Or a predominantly Dutch team, led by a non-Dutch partner – what happens there?

While transitioning back into academia took a while, at the same time, it is only since recently that I feel increased traction. The wheels are starting to turn. And I love the enjoyable as well as productive collaborations with my colleagues from whom I learn so much. Most importantly, research caught me. What attracts me in academic research is trying to find out how the world *really* works. No opinions, visions, or personal anecdotes. But trying to get as close to the "truth" as possible – rigorously gathering evidence to explain the phenomenon under study, with all the limitations each study inherently has too. That focus on academia turns out to be a good choice for me. It provides the appropriate context to tell it like it is and to be well-

informed in my arguments. It is the mission of evidence-informed (public) policy making for which I want to contribute to the auditing research community.

### **Bridging science and practice**

My point to prove here is this: rather than trying to combine academia and practice in one person, we should try to bridge the two worlds itself.

The Foundation for Auditing Research<sup>1</sup>, which I have the pleasure of co-leading with my colleagues and “partners in crime” Jan Bouwens and Henriëtte Prast, is an example of a serious attempt to bridge science and practice in auditing research. Established in 2015 as part of the improvement plan of the Dutch Future Accountancy Profession Working Group (2014), FAR is a unique collaboration between science and practice, conducting academic research into the drivers of audit quality to inform the professional development of and public policy making with regard to the auditing profession, feed auditing education, and strengthen the auditing research community.

To that end, the FAR currently supports more than 25 empirical research projects of excellent academics in the Netherlands and abroad, using multiple research approaches and methods to arrive at a balanced, evidence-based perspective of informing the auditing practice. Next to extending our empirical research program, FAR contributes substantially in the further strengthening of the (Dutch) auditing research community. It was this Spring that Jere Francis moved to Maastricht as the first FAR Auditing Research Chair for the coming four years. FAR has also “created” pure research time for four new full time PhD students in its Auditing Research PhD Program. For me personally it is wonderful to be working with so many talented and knowledgeable junior and senior colleagues.

FAR does that through financing auditing research, but more importantly, through access to research data of the 10 largest Dutch audit firms – archival data, surveys, experiments, and interviews and other qualitative data. That is the true treasure. In 2016, we laid the fundament of the

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<sup>1</sup> [www.foundationforauditingresearch.org](http://www.foundationforauditingresearch.org)

research, data, and legal infrastructure. 2017 was needed to find out how the structured and reliable gathering of research data works best in practice and how much it actually involves – the discovery and learning of which all took the larger part of 2017, with a great deal of interaction between the firms, the research teams and the FAR. In 2018 we have been able to follow through on our data gathering objectives and sharing of the first FAR research publications. While we already have been able to unlock research data with regard to surveys, experiments, interviews, case studies, and other qualitative research, we have now also been able to effectively unlock archival data from firms' audit files and information systems. This unique data access allows for multidisciplinary, novel research inside the “black box” of auditing. We are steaming full speed ahead with regards to the provision of confidential data and extension of our research programs. The level of efforts put into the FAR research projects shows that the audit profession is serious in its endeavors to obtain academic insights to help strengthen the continuous improvement of the profession as a whole.

The FAR believes that research has the potential to identify those factors that influence audit quality in daily practice and, through that, evidence-inform public policy making with regard to the future of the auditing profession. FAR organizes monthly Master Classes and Seminars where you can learn about new research. It publishes research papers and practice notes – specifically relevant for learning new ways of working in your own audit practice tomorrow. And FAR is increasingly able to present what we know from research in meetings with public policy makers like the Ministry of Finance or the Committee on the Future of the Accountancy sector (CTA). While the first annual conference may have been a “natural experiment” of two days of practitioners and academics in one room, the most recent and 4th conference proved again that the two worlds are growing closer to one-another.

At the same time, the research teams have had to exercise considerable patience, but we have reached the tipping point of the learning curve of actual delivery of research data. We are putting all our efforts into making sure that all firms pass the tipping point of the learning curve. To push the data gathering forward, both the FAR and the affiliated firms have invested in further strengthening their research organizations. Noteworthy is that our

data gathering requests also contributed to the audit firms' improvement of their own management-information-systems. In other words, what information we were asking in year one and was not systematically available then, is readily available now. All is geared towards sustainably realizing both structured and continuous data exchange between researchers and affiliated firms.

FAR is truly like a start-up – we simply didn't realize what we were getting in to. Or was a start-up maybe. FAR is now moving towards its next phase on the growth curve. With FAR we – the Dutch auditing profession, the audit firms, and the auditing research community – have built something unique in the world. Over the past year or so, we were invited at different occasions – in the European Union, in the UK, in the US – to discuss basically the following question: “Now that the FAR model is working in the Netherlands, would it also work here in the US?”. I think that is a very appealing question, although I am not looking for a job on the other side of the ocean – hence, we are willing to “export” FAR's intellectual property. My answer to that question ranges from sure, to why not, to not so sure, to “it's really up to you guys here locally”. The Dutch auditing profession is leading the way in bridging practice and academia in auditing on this scale and structure. “*Nederland gidsland!*”.

At the same time, I think close collaboration with and access to practice (data) are not to be taken for granted and surely are a prerequisite for relevant, valid, and impactful empirical research. Access to proprietary audit firm data and institutional knowledge provides opportunities to further develop the practice-oriented nature of research – a focus called for by scholars (e.g., Hopwood 1989), given “the difficulty of gaining ‘first hand’ knowledge [which] arises from the lack of data access provided by firms and, when data access might be available, the difficulty imposed by the enormous time commitment necessary to gain the ‘first hand’ knowledge” (Gramling, Johnstone, and Mayhew 2001, 70). Or as Michael Power and Yves Gendron note: “While audit firms are keen to criticize research for being too removed from the realities of practice, they tend to remain cautious in providing researchers with access to what they view as sensitive data. Yet negotiating access to data constitutes an area where auditing academics may benefit from behaving as strategists, mobilizing their

network of contacts, and *ensuring that their projects are presented in a compelling way*” (2015, 151, emphasis added).

That may sound a bit pessimistic about the collaborations between practice and science. I am actually quite positive. I see a huge difference with ten years ago, when audit firms hardly wanted to spend money and time on research. “A Euro invested in research is a Euro burned”, one head of audit of a Big 4 once said. That has changed drastically.

I believe in the potential impact of practice oriented (field) research – and this can best (or only even) be done in close collaboration with practice. As Salterio and Gondowijoyo note (2017, 11): “*The behavioral accounting researcher needs a deep engagement with practice to understand the institutional context that their participants are embedded in. (...) The researcher’s extensive engagement with the practice community enables them to identify key issues that practitioners are grappling with*”.

My colleague Willem Buijink, *eminence grise* of the Dutch accountancy research community and also academic board member of the FAR, tends to paint an even more concrete picture explaining “who’s audit quality we are actually talking about when we discuss auditing research”, as he did at last year’s FAR conference. There are 21,000 statutory audits per year in the Netherlands, which are done by 1,300 auditors. These auditors are partner or are employed at 300 audit firms, of which currently six are so-called PIE licensed firms (recently still nine – a disconcerting signal in itself) that are allowed to audit the approximately 900 more “important” organizations where more is “at stake”, either financially or societal – like universities for that matter. Willem’s point is – that is at least my interpretation – that audit research tends to talk about auditing as a profession as a whole or about audit firms. But we actually know which individual auditor is involved in which audit. For example, DSM here in the Netherlands is audited by Erik Weusten of KPMG. He is the one who signed DSM’s auditors’ report on 7 March 2019. So, when doing behavioral research in auditing, we are actually talking about Erik Weusten’s behavior and quality. That is thus rather personal. Auditing research – starting from the level of the audit profession, the audit firm, and (more recently) the offices within firms – is increasingly focused on the individual level of the audit team and the audit partner too.

Close collaboration with the affiliated audit firms is inevitable for doing research into the “black box” of auditing. I value that greatly, have encouraged doing research with practice for long, and have done research in close collaboration with practice from the start of my academic career (e.g., I conducted my PhD research in close collaboration with one of the Big 4 audit firms). “You have to interact with the system in order to measure the system”, I heard Robert Knechel, also FAR Board member, posit at one of the conferences this Spring. And he is right. Hence, I plan to continue this path as behavioral research in auditing can surely benefit from close collaboration with practice. That is what research for me is about. Science meeting practice – practice meeting science.



## Chapter 4 – Crossing three: behavioral research in auditing

I think Maarten van Rossem would get a bit impatient now... When are you finally going to be harsh and critical on your friends...? Best friends tell it like it is, after all... They don't hide behind pleasantries or a 3<sup>rd</sup> "suspension". Your best friends always tell you the truth or ask the uncomfortable question, right...?

Like that one time some years ago at a conference of the International Symposium on Audit Research. I got talking with a colleague, when he asked me: "What is your area of research?". When I replied to be in behavioral research in auditing, he replied in conclusion: "Aha, so you are an experimentalist". It was a somewhat confusing experience. Behavioral research is experimental research...? I had never done experimental research, yet I considered myself to be doing behavioral research in auditing. Even recently, at the 25<sup>th</sup> anniversary ISAR conference it was said in a plenary presentation reflecting on the history of ISAR: "We started with qualitative and behavioral – then we added multimethod". In other words, behavioral research in auditing was still seen by some as being equal to experimental research.

Now the point here is, I am not an experimentalist – yet my research *does* inform about the behavior or behavioral context of auditors. This colleague observed what may have been my 3<sup>rd</sup> – and last for today – crossing of a divide: that of multiple methodologies in behavioral research in auditing.

## Behavioral research in auditing defined

My focus and contribution therein are on behavioral research in auditing<sup>2</sup>: “the field of behavioral research as applied to auditing” (Ponemon and Gabhart 1991)<sup>3</sup> or “behavioral research designs in audit settings” (Lord 1992). It can be defined as (based on, amongst others, Birnberg and Shields 1989; Caplan 1989; Ashton and Ashton 1995; Arnold and Sutton 1997; Knechel 2000; Gramling et al. 2001; Trotman, Tan, and Ang 2011): the study of the behavior of auditors (mainly judgment and decision making) and its underlying (person, task, environmental) determinants as to understand how to develop and guide auditors’ professional behavior.<sup>4</sup> Behavioral Research in Auditing can be seen as a school or line of research within behavioral *accounting* research (next to, for example, behavioral financial accounting, behavioral managerial accounting, behavioral finance, or accounting information processing). Previously, behavioral research in accounting and behavioral research in auditing were used intertwined<sup>5</sup>, actually signaling the interdependence of both fields.<sup>6</sup>

Auditing being a rich decision-making profession, behavioral research in auditing is focused on (individual) judgment and decision making performance, *understanding its underlying determinants* (e.g., how those decision processes are moderated by auditor characteristics and environmental features), and suggesting new interventions for improving judgment and decision making performance (in line with, e.g., Birnberg and Shields 1989, 51; Libby 1991, 1-2; Griffith et al. 2016). Auditors’ judgment and decision making research (e.g., Bonner 1999, 386; Nelson and Tan 2005, 41) seemed

<sup>2</sup> The field of Behavioral Research in Auditing is sometimes also called “Research in behavioral auditing”, “Behavioral auditing research”, or “Auditing Behavioral Research” – but to me researching “behavioral auditing” or auditing “behavioral research” are both different than researching auditing from a behavioral perspective.

<sup>3</sup> Birnberg and Shields (1989), while referring to the work of Becker, are more specific: “Behavioral accounting research applies theories and methodologies from the behavioral sciences to examine the interface between accounting information and process and human (including organizational) behavior” (p. 24).

<sup>4</sup> The question of course is: can behavior really be developed and guided? Can it be managed? The (possibly unsatisfactory) answer is: Yes and no. On the one hand, behavior is an emergent property, and thus leaders cannot “steer” behavior (e.g., Meek, 1988, p. 459). On the other hand, the conditions in which behavior emerges *can* be influenced, which therefore *does* enable to effect behavioral change. Having said this, such conditions cannot be reduced down to its constituent elements (e.g., Ehrhart, Schneider, and Macey 2014). Rather, it is the configuration of contextual conditions that drives behavior.

<sup>5</sup> The most prominent illustration thereof is the definition of Hofstede and Kinard (1970, 43): “Behavioral accounting research may be defined as the study of the behavior of accountants *or* the behavior of non-accountants as they are influenced by the accounting functions and reports” (emphasis added). Notably Caplan put it even stronger (1989, 110): “Some of the leading academic accountants from the era [of the 1960’s] continued for many years to argue that whatever ‘behavioral accounting’ was, it certainly was not ‘accounting’”.

<sup>6</sup> This is well illustrated by Hopwood (1989, 7): “The research that has been undertaken thus far can provide an interesting and indeed useful interpretative basis for understanding and changing accounting in action. It is now possible to offer a meaningful appreciation of the human and organizational context of accounting. At the individual level, be it in a management accounting or an auditing context, we are now in a position to make sensible and potentially useful comments on the functioning of accounting information systems”.

to be the primary focus of behavioral research in auditing (e.g., Hopwood 1989), while in the maturing of the field in the 90's a shift can be seen towards studies on the effects of *contextual* or *environmental* features on auditors' behavior (e.g., Libby and Luft 1993; Trotman et al. 2011).

### **Environmental determinants of auditors' behavior**

*“In order for researchers to understand and predict behavior, they must consider both person and situation factors and how these factors interact. (...) The basic question underlying the well-known person-situation debate has been whether persons or situations account for more variation in behavior. Most behavioral scientists agree that both personal and situational characteristics influence behavior”*

(Chatman 1989, 333).

My research focuses on the environmental or contextual determinants of auditors' professional behavior. It builds on the view that organizational culture focuses on the context (rather than solely on the individuals within the context), because people behave the way they do primarily based on the meaning they attach to everyday events within their social context (Smircich and Morgan 1982). People interpret the signals they receive to infer what is really valued within the organization. Rather than being the individual as a lone player, explaining behavior is explaining the individual within the broad and day-to-day context. Hence, the basis for and definition of culture driving organizational behavior is the overall pattern of the signals sent by the complex web of formal (but also often tacit and informal) practices, rules, and policies across the organization and across competing domains (e.g., Schneider 1975; Zohar and Hofmann 2012).

This pattern is what Schein (2017) calls the “visible artifacts” (Schein 2017, 183) or the (primary and secondary) culture-embedding mechanisms through which leaders embed and transmit culture as these send out the messages about what is really valued (i.e., the underlying values). Examples of primary embedding mechanisms that Schein provides are: (1) what leaders pay attention to, measure, and control on a regular basis (or don't), (2) how leaders react to critical incidents and crises, (3) how leaders allocate scarce resources, (4) deliberate role modeling, teaching and coaching, (5)

criteria by which leaders allocate rewards and status and (6) how leaders recruit, select, promote and retire members.

It is the (often subconscious) assessment of how congruent the actual and espoused values are that provides important insight into an organization's true underlying values and beliefs and thus also into its behavioral norms (e.g., Wilderom, Glunk, and Mazlowski 2000; Ehrhart, Schneider, and Macey 2014). Consequently, behavior in organizations is to a large extent driven by the process by which these patterns and signals are interpreted and come to have socially shared meaning in the minds of the organization's members (e.g., Taylor 2005; Schein 2017).

In other words, my research into the behavior of auditors is based on the notion that organizational culture focuses on the context (rather than solely on the individuals within the context) and on shared experiences, as people behave the way they do based primarily on the messages they believe they receive about what is really valued within the organization.<sup>7</sup> With that, one important objective of my research is to evidence-inform the audit profession and its stakeholders on audit quality assurance measures that take advantage of auditors' behavioral strengths and offset specific human weaknesses. That is, changes to contextual conditions that may mitigate the effect of judgmental and cognitive limitations on auditor (erroneous) decision making.

### **Studying audit firm cultural antecedents of auditors' behavior**

Studying such cultural embedding mechanisms may yield specific practices that might serve as improvement interventions that are more immediate under (audit firm) management control. Such behavioral research questions in auditing may best be served by a multimethod approach, as different approaches may inform and explain the behavior and behavioral context of auditors.

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<sup>7</sup> Notably, this meaning does not reside in any particular aspect individually. It is not one single practice or policy that makes the difference, but rather it is the coherent pattern arising from the many practices and policies that, taken together, send a comprehensive message to employees about what is valued within the organization (e.g., Schneider and Reichers, 1983). Put another way, there are multiple cultural influences at work simultaneously – none of which is *the* single driver of organizational behavior (e.g., Glick, 1988). Rather, "it is the unique blend of all of them and how they evolve over time that make an organization's culture what it is" (Ehrhart et al., 2014, p. 148).

As a first of three examples, the study of “Determinants of audit partner compensation” that I am working on with my colleague Jan Bouwens and PhD student Yuxia Zou. This study focuses on how audit partner performance management system and audit partner compensation and profit-sharing system, as two “culture embedding mechanisms”, incentivize and inform individual audit partner behavior. Based on *qualitative and quantitative archival data* of six audit firms (like original policy documents and actual performance and compensation data), our provisional findings not only show that audit quality has become more influential on an audit partner’s performance evaluation and profit-share over the period 2007 to 2017. Our provisional analyses also show that audit partner performance evaluations – having become more formalized and granular – have real consequences in and by itself, irrespective of any compensation effect. For example, audit partners that continue to perform below par, are asked (or forced) to leave and resign from being a partner with the firm. That means that it may well be that audit partners’ peer-to-peer performance reviews (as traditional social control within audit partnerships) suffices in driving audit quality at the individual partner level.

Another research project I am working on that informs the behavior or behavioral context of auditors is the study of “what makes audit partners and their audit teams successful?”, jointly with Jere Francis, Murray Barrick, Ann Vanstraelen, and PhD student Lena Pieper. One major goal of this study, which is based on *survey and quantitative archival data*, is to answer this fundamental question: what is it about audit partners and managers combined that matters to the team’s success in terms of the quality of their teamwork and audit engagements? For this, this project focuses on audit partner and manager personality and leadership styles, their dyadic fit, and team dynamics and climate – all in regard to audit quality. In terms of audit practice, the contribution of this study is to provide a scientific basis for organizing and managing audit teams in order to further enhance audit team performance and quality. This study should help the audit profession to develop more targeted responses to managing audit team leadership composition, achieving better and consistent audit outcomes, and improving the internal dynamics of audit teams.

A third example is the study of root causes and root cause analyses methods in the Dutch auditing profession. Root cause analysis is an established process in a number of industries and is a developing area in the audit profession. The basic principles of root cause analyses are based on the assumptions that “the propensity of humans to make errors cannot be eliminated” (Taitz et al. 2010, 1). But rather than blaming an individual for making an error, it may be wiser to look for a root cause or a set of root causes that can be formulated reflecting underlying system vulnerabilities which allow human error to cause adverse events (e.g., Wald and Shojania 2001). In other words, finding the audit firm’s organizational conditions or “culture embedding mechanisms” that can strengthen audit quality. I had the privilege to chair the root-cause-analysis working group of the 9 Dutch PIE-licensed audit firms which not only resulted in the latest report on the most common quality root causes of the Dutch professional body of accountants (NBA 2019) but also into a FAR Practice Note that speaks to the question of what constitutes root cause analysis specific to the auditing profession (Bik 2019). Based on *qualitative archival data* I am currently working on a research paper together with colleagues Christine Nolder and Jan Bouwens to analyze current root cause analysis methods and findings to provide a better framework for identifying the root causes that more specifically informs potential remedial action. We use a behavioral perspective because that drills down to the very professional behavior and judgment-and-decision-making that is so central to the auditing profession and to audit quality.

And lastly, case studies of complex audit judgments and decision making. The idea is that we learn from the case what mechanisms are in place to assure that (a series of) events that potentially cause severe effects are sufficiently dealt with. Needless to say that such case studies are based on *qualitative archival data, interviews, and surveys*. Such case studies provide a better understanding of how firms come to certain policy changes to address quality issues and of the efforts and dilemma’s in a firm’s balancing of cultural conditions. Such case studies will also provide for excellent learning material for other firms, for students, and for regulators and public policy makers.

### **Multi-method and multi-disciplinary research**

All are examples of studies in behavioral research in auditing – but non-experimental. Not that I wouldn't want to be doing experimental research – preferably a natural experiment. My point here is that while behavioral research in auditing has for a long time been associated with experimental research, approaching a research question from multiple perspectives employing triangulation of methods may well be the better strategy to arrive at a strong body of knowledge. Mainstream auditing research, however – and I sometimes struggle with that – in my opinion does not always stimulate such a multi-disciplinary approach to research. Surely, I value the so-called “hierarchy of evidence”. Archival data is seen to have higher external validity, but while “you can ask for the ideal, you have to work with reality” (quote from my colleague Murray Barrick). Surveys may be better geared towards finding specific perceptions, but building a proper survey instrument is an art in itself. Experiments can be best controlled to test for potential mechanisms and causality, although I think people tend to be overconfident about causality and external validity of experiments. And case studies and interviews allow for the depth and insight into a specific issue at hand, but such naturalistic investigations in which the researcher acts as an observer and investigator requires discipline, care, and objectivity.

I appreciate that every method has its strengths and its weaknesses – as I try to employ multiple approached in my own research agenda and contribute to the call for integrating multiple methods in future behavioral research in auditing: “Research that examines various issues from the different perspectives is richer than employing any single method and enhances our understanding of a given accounting phenomenon” (Hageman 2008, 1; also see Power and Gendron 2015, 148). Research could furthermore benefit from collaboration with researchers outside of auditing and accounting and from other methodological fields. Signals are on the horizon when reputable auditing scholars posit the following: “Such efforts can lead to great[er] insights that are less likely to arise from ‘auditing researchers talking to auditing researchers about auditing research’” (Sunderland and Trompeter 2017: 174). In that regard I strive for a well-balanced perspective in my research.



## Chapter 5 – Crossing the divide to bridge it

So, here we are. At the closing section of my inaugural address. If I wanted to prove I could say something critical, this is the moment... No shying away now...

So, here we go... How would the grumpy Maarten van Rossem say it. It is completely ridiculous... I have never seen something more stupid as... I am shocked to see... Nah...

Ah, here it is... Pure poetry of Maarten: “I am dumbfounded”.

I am dumbfounded by the ease, nonchalance, indifference, and grandiosity with which academic research is ignored, dismissed, pushed away, or shamelessly abused in the professional and public debate with regards to the auditing profession. The way we conduct the debate to me is superficial and dispirited. The media attention and tone are not always constructive, and often biased. I personally get little energy from that. It is very hard to get the public debate interested in an academically informed discussion. For example, this one time we discussed case studies of “near misses” in complex audits, when the – reputable – journalist asked: “Will we know the name of the auditor and the name of the audited company?”. When we replied: “Unfortunately not – but that is not the purpose of a case study”, all his enthusiasm vanished into thin air.

Or the famous “N=1” stories. Even academics tell these. “I have seen Olof drive through a red light, so all auditors cross red lights”. That is thinking at a level of a ten-year-old. It is like saying that you will have a higher risk of drowning while swimming in the sea when eating more ice-cream. No! More people swim in the sea in summer. And more people eat ice-cream in summer. It is the summer that is the explanatory variable here – not that

you have to increase the number of life guards when you see more people eating ice-cream...

Who cares, would you say. But it leads to ill-informed public policy making if the morning paper is the only thing politicians read... Recently, I heard one of the politician in the public auditing debate – thus assumed to be knowledgeable to at least some extent – convincingly advocate to put an end to the “goodwill model” in audit partner compensation structures – only to find out, that very minute – that most firms already had. But I also don't like it that I sometimes quit because of that. Some of my colleagues continue to bravely engage in public debate, not seldomly against their better judgment. “Why even try?”, me being surely not the only one thinking that. That worries me.

That worries me greatly. It worries me because there is seldomly an easy answer to a question easily asked. Nevertheless, we tend to rely on seemingly easy interventions or quick remedial actions and implement them without having tested them for suitability and effectiveness. Isn't that strange? Would you take medicine that hasn't been tested for its workings and unintended side-effects? No, of course not. Science may be slow – for very good reasons though – research should not only be relevant, but also rigorous. I do understand that the Minister of Finance is considering fundamental measures for the auditing profession. But they must of course also be tested in the light of science. That really doesn't have to take years.

Let me give you an example. Since recently, audit firms are required to have implemented some sort of audit quality penalty for their audit partners – discussed in the previous chapter too. But has that been tested for its effective working a priori implementation? Now, let's compare that with the anecdotes following the implementation of a “being late penalty” at day-cares (based on Gneezy, Meier, and Rey-Biel 2011). Parents would pick-up their off-spring later and later and more often after closing-hours, let's day 6 pm. So, what did they do? They implemented a penalty system. If you were late, you would be fined an additional EUR 7.50 for every 30 minutes you are late. What happened? Parents thought: “Aha, that is interesting – for only EUR 7.50 I can continue to finish my work”. So, instead of being more compliant with opening hours, parents would now pick their kids up

even later! How so? Well, you move from a social to a transactional system. The same principle applies to the “audit quality bonus or penalty”. With that the audit firms now signal to their audit partners that delivering a high-quality audit is an option. If you don’t want to, you simply forego a bonus or accept a penalty. It is not that the monetary impact of such a penalty is as such that a partner would really be affected in his livelihood. Why then even bother moving to a transactional system? The more because our preliminary research on audit partner performance management and profit-sharing systems I talked about earlier (Zou, Bouwens, and Bik), shows that audit partner performance evaluations have real consequences by and in itself, irrespective of any compensation effect. In other words, you do not by definition need a monetary audit quality penalty. Yet, new regulation in the Netherlands (Article 18b of the Dutch corporate law on audit firm supervision) requires the remuneration system of the audit firm, *including its profit-sharing system*, to appropriately reflect audit quality incentives. But it may well be that audit partners’ peer-to-peer performance reviews (as traditional social control within audit partnerships) suffices in driving audit quality at the individual partner level. This would prevent audit firms with, for example, an equal-profit-sharing system, to be *forced* to implement an audit quality penalty – something that would be inconsistent with the audit firm’s values, philosophy, and culture.

Implementing such untested measures may very well have unknown side-effects. Unintended consequences. Especially in a profession in which the judgement and decision making and behavior of the individual professional are so central. That is not what you want. There is no such thing as a zero-risk-game. Things that go wrong, often happen in the same way as things that go right. Incidents may happen that are reasonably beyond management’s control. The answer to the question “What should standard setters do differently after having read your research?” could also be: “Stand your ground. Current policy is right, no change needed”.

#### *Knowledge transfer*

So, this one day, that I asked a Big 4 board member: “What do we have to do to get you to read an academic paper?”, his honest but brutal response was: “If you can tell me in maximum three lines why this research is

specifically relevant to me in my specific circumstances”. Research is not about elevator pitches...!

I tried it again during an academic panel discussion and asked a board member of an international auditing and assurance standards board: “What do we need to do for your standards setting board to read and take into consideration research that is relevant to the standards you are setting?”. And his answer too was: “Well, I personally am able and willing to read your academic papers, but I can’t expect my fellow board members to be equally interested and capable”. Huh...? These are all academically educated people and they are not able nor willing to read academic research? It may have been a show – and it was – but there was this SEC Commissioner at a conference this spring that could quote – by heart – recent academic research that was relevant to his policy setting agenda.

Is this the fault of academics? Truth told: most people hate – fear maybe – academic research. It is slow. It is fragmented. It is vague. It doesn’t tell me what to do tomorrow to solve my particular problem that I have today. That is too much to ask of us. Real world implications may not be visible at first sight. We should thus be careful with relentlessly proving the direct practical contribution of any one research paper by itself – a common body of knowledge maybe, based on a series of multidisciplinary papers maybe.

Sure, it is fair enough to say that audit practice may be overloaded with academic research. How does one choose from many sources of information? Research which is not always practically worded either: “research is in a form that is unfamiliar to the potential user, thus creating a barrier to his (her) knowledge acquisition”, say Hoang, Salterio, and Sylph (2017, 12). Research that is difficult to weigh in terms of its merit or practical value: “It is not clear whether a potential user (i.e. a policy-maker) can distinguish between the quality of the research evidence among the various researchers” (Hoang, Salterio, and Sylph, 2017, p. 12). But researchers can’t hide behind the excuse that “they don’t care for what we do”.

However, this should also be no reason at all for practitioners and policymakers to ignore knowledge identified by academics: “in particular the

process surrounding how to incorporate the transferred knowledge into best practice guidance”; (Hoang, Salterio, and Sylph, 2017, p. 15). Leading academics often have no practical experience. In turn, auditors and policymakers often only have limited knowledge about conducting and interpreting academic research. This combination results in “absorptive capacity to be limited even if an academic makes a good faith attempt to communicate”; (Hoang, Salterio, and Sylph, 2017, p. 14).

It is even in our accountancy degree programs that we shy away from using academic literature and research papers – in favor of textbooks. It is for this reason that we are investing in our Accountancy education programs to strengthen the academic curiosity and skills of the next generation auditors. Teaching is a very important way of bringing science to practice, to really interest students in the wonders of academic literature. This is part of the reason why we further improved the “research year” in our Master Accountancy here at Nyenrode. To stimulate the academic curiosity of our students, hoping that they will continue to be academically curious in their further careers conducting audits, and know where to find it. We want to make them proficient in reading and criticizing academic papers.

The firms can surely do more too. To my great regret, again another two PhD students that were talented and up for the job, were snatch away by audit firms offering them short-term relief at the cost of long-term fruits. I would expect the audit firms to do the exact opposite. I would expect to see more PhD students amongst their people. This is of great value for the professional and scientific knowledge to the firms in the long term. There must be more continuity in this. FAR can’t fill this void – the firms and the profession need to step up their game. Why not install “Standing Academic Advisory Committees” within the profession? Or “scientific units” in the firms? Keep on dreaming...

I can hear Maarten saying: “Really, it that as critical as you can be...?” Well Maarten, this is not the proper way to end an inaugural address... It is not that I am embittered or discouraged. Well, at times maybe. But at a moment like this, publicly accepting this chair in Behavioral Research in Auditing, I can only promise you that I will wholeheartedly persist and devote all my

working time to the research and education for the future of the profession I hold so dear. Even if I have to cross yet another divide.

Before going to the acknowledgements, in my inaugural address I have tried to illustrate that *sometimes you have to cross the divide first – in order to bridge it later*. In that regards, let me close in summary with three questions:

1. Shouldn't the auditing profession dare to cross their own divide by choosing for financial reporting quality as its compass for audit quality and, with that, underline that audit quality is an inseparable part of the entire financial reporting and assurance supply chain in which the relevance of auditing is in the joint production of reliable corporate information?
2. How can we best further strengthen the research collaborations between science and practice and close the knowledge transfer gap to evidence-inform the continuous improvement of the auditing profession? Which divides need to be crossed?
3. How can a multidisciplinary approach in behavioral research in auditing contribute to a more fruitful body of knowledge that recognizes that there is no such thing as a zero-risk-game in a profession in which the professional behavior of the individual auditor is so central to audit quality and that yields potential improvement measures that are tested for their effectiveness and unintended consequences, that are more immediate under audit firm management control, and that fit the identity and philosophy of the audit firm?

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**With that I have spoken, ik heb gezegd.**

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