

What can we  
learn about  
*culture* from  
Jere's completed  
FAR research?



Foundation *for*  
Auditing Research

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## What can we learn about *culture* from Jere's completed FAR research?

The theme of the 2024 FAR conference is *Audit Firm Culture and Audit Quality*. The conference also marks the end of the 5-year appointment of Jere Francis as the FAR Research Chair. This milestone provides an excellent opportunity to look back at the accomplishments of Jere Francis' research team, which did considerable work on topics related to audit firm culture.

This concise publication contains the abstracts of the four completed working papers that were produced by Jere Francis and his team members:

- 'Does Personality Relate to Job Performance of Partners and Managers?'
- 'Audit Partner-Manager Dyadic Fit and Team Functioning.'
- 'Partner-Manager Voice Modeling Behavior and the Effects of Mixed Messages on Audit Teams.'

- 'It Takes Two to Make a Team Go Right: Effects of Dual Team Leaders' Individualized Consideration and Initiating Structure on Team Efficacy, Performance, and Viability.'

The four abstracts are preceded by a retrospective written by Jere Francis, in which he evaluates his period as the first FAR Research Chair.

At the end of this booklet, also the links to Jere's other FAR-publications are included. Of particular relevance to the culture theme is the practice note related to culture ('Perspectives on Audit Firm Culture'), which concerns a still ongoing project. Jere provides some more information on the initial findings in his retrospective.

We hope you will enjoy reading this publication and, as always, we welcome your input and ideas!

**The FAR team**



# A retrospective on the FAR Research Chair

By Jere R. Francis

My 5-year appointment as the FAR Chair and Professor at Maastricht University ended on May 1, 2024. I accepted the appointment because of the unique opportunity to do relevant and rigorous audit research with the help of accounting firms through the access they grant to survey their people, along with private internal data they provide about their people and audit teams. It was a once in a lifetime opportunity and I am grateful to have had this experience.

*‘Culture is called the glue that holds the organization together’*

The Foundation has supported two research projects, and two PhD students to work on these projects. One of the students dropped out of the PhD program. This happens.

A PhD is not for everyone. But the other student, Lena Pieper, excelled in her work on these projects and has just finished her first year as an assistant professor at the University of Illinois, the top-ranked audit research university in the world. This is an accomplishment of which we can all be proud.

To date, my research has yielded six research papers which are published on the FAR website, along with practice note versions of the research papers.<sup>1</sup> There are still more papers to come, as we continue to analyze the data in the two projects. I may be retired now, but the work continues!

In this FAR publication, the four *completed* papers related to audit firm culture (the theme of the 2024 FAR conference) are summarized. But below I will provide a broader overview of the studies within the two projects.

<sup>1</sup>) The Corona Virus slowed our progress. The University was closed for in-person work for nearly 18 months, and it also slowed the response of the accounting firms to our data requests for the two projects. In fact, we are still waiting for data from two of the firms.



### **Research project 1: what makes audit partners and their engagement teams successful?**

By 2018, when I was approached about the FAR chair, my own research had convinced me that variation in partner-led audit teams was far more important in explaining differences in audit quality than were the audit firm and audit office characteristics that I had been studying for the past 25 years. So, it was logical my first FAR-supported research would study what it is that makes audit partners and their teams successful.

As the project evolved, my team focused on three questions. First, do personality traits of the top audit team leadership (partners and managers) affect their personal job performance, as assessed by the internal performance appraisal systems of their firms? There is an extensive literature in management science linking personality traits to job performance. The second question asks if partner-manager pairings (what we call dyads) affect audit team climate and performance. No research has explored the partner-manager pairing dynamic. The third question asks if leadership behaviors of the partner and manager have an effect on team climate and the performance of their audit teams.



### **Research project 2: audit firm culture, audit quality, and other organizational outcomes**

My second project studies the culture of audit firms. Organizational culture has been studied by virtually every social science discipline for well over 50 years (anthropology, economics, management science, psychology, sociology). There are over 50 definitions of culture in the research literature. Here is how culture is typically defined: *the shared values, assumptions, and beliefs held by people within an organization that create underlying behavioral norms and expectations, and which guide the day-to-day actions of people in organizations.*

Culture is sometimes called the glue that holds the organization together. The notion of culture is abstract and accounting scholars have explored specific elements of culture such as tone at the top, culture embedding mechanisms, professionalism versus commercialism, independence, skepticism, ethical judgments, learning cultures, socialization processes, and interactions among audit team members.

Culture is also a hot topic for the AFM as they have pursued a culture initiative as a way of improving audits. The logic is that culture

affects the audit firm's quality control environment, which in turn affect the quality of audits. So, if you change (improve) culture, then you can improve audit quality. The challenge is that it is difficult to measure culture (and change in culture) and equally difficult to measure how culture affects audit quality.

Our project uses the well known 'competing values framework' as a lens to study the culture of audit firms. All organizations need to do four things to varying degrees to be successful: their people need to collaborate effectively, the firm creates and innovates, the firm competes in markets, and there is some organizational control over these activities.

*'The application of the findings is in the hands of the audit firms'*

Our initial findings indicate that audit firms primarily emphasize tight controls. However, the firms do differ in the relative importance of the other dimensions (collaborate, create, compete). We also find that there is a considerable gap in how partners view audit firm culture versus the rest

of the firm, which suggests that audit firms may have difficulties in creating a clear and consistent sense of culture throughout the firm. We also find that there are important differences in the desired culture of the audit firm by non-partners, versus the views of partners. Non-partners want a primary emphasis on a culture of collaboration, while partners want a culture of strong controls. We believe these differences have implications for the financial performance of audit firms, and for the hiring and retention of employees. This work is only at a preliminary stage and there is much more to be done.

### Final Thoughts

This year's FAR conference theme is broadly about culture. We can think of culture as operating at two levels. First is a firm-wide notion of culture. These are the common core values the firm actively promotes and reinforces at training sessions. However, auditors work in small teams at client locations (and now 'at home' to some extent). For this reason, there is an important second level of culture, and that is the distinct sub-culture of the partner-led engagement team. And this leads us back to the first project, and the importance of partner and manager

leadership behaviors in creating an engagement team culture in which there is a positive team climate and team efficacy (self-confidence). So, in this respect, I see all of my FAR-supported research as investigating different elements of audit firm culture.

Concerns have been voiced within the FAR community about the relevance of scholarly research findings to audit practice. This is regrettable. We are scholars, not paid consultants or the R&D unit of audit firms. We are doing something akin to basic scientific research which we publish in scholarly journals. I think my own research has potential implications for practice, but I am not a paid consultant delivering 'quick' and simple solutions to firms. The application of the findings in scholarly audit research is in the hands of the audit firms who need to have an openness to hearing us, and thinking about how our research findings may apply to their practice. In closing, I thank FAR and the audit firms for their support over the past five years, and especially my wonderful research colleagues Murray Barrick, Olof Bik, Lena Pieper, and Ann Vanstraelen. ■

# Personality traits of partners and managers and job performance

*Article: 'Does Personality Relate to Job Performance of Partners and Managers?' by L. Pieper, M.R. Barrick, O. Bik, J.R. Francis, and A. Vanstraelen*

## PURPOSE OF THE STUDY

This study examines whether and how personality traits of audit partners and managers relate to their job performance, using data from Dutch auditors.

## MAIN FINDINGS

The findings show that personality traits significantly vary among auditors and influence their job performance (as assessed by audit firms in their annual performance reviews). There are direct effects of some personality traits. For example, 'extraversion' (i.e. being outgoing, dominant, and ambitious) is positively associated with performance. There are also indirect effects on performance, in which personality traits first affect job skills (technical, commercial, leadership) and influence job performance via these job skills. Extraversion is the strongest predictor of performance, while 'agreeableness' (i.e. being good-natured, considerate, and tolerant) has both positive and negative

effects depending on the specific skills assessed. The 'Dark Triad traits' (i.e. three malevolent qualities) negatively impact overall performance, despite positive associations with commercial skills. Furthermore, auditors become increasingly homogenous as they move from manager to partner, particularly in terms of extraversion.

## PRACTICAL RELEVANCE

The study has broad implications for hiring and training. For example, since extraverts perform better, firms may want to hire people that are extraverted. Also, since there are personality differences among auditors, job training could be more targeted around specific personality traits. For example, agreeableness is helpful for commercial skills, but harmful for technical skills. Therefore, focused training could help individuals who are highly agreeable to better understand that sometimes there will be tensions and conflicts with the client and these cannot be avoided.

## Background

Recent audit partner research finds that variation in partner characteristics affects the quality of audit engagements. Most of this research uses publicly available data on partner demographics such as age, gender, experience, industry expertise, and workload (busyness). In contrast, this study uses validated survey instruments to measure the personality traits of Dutch audit partners and managers. The researchers rely on the organizational behavior and psychology literatures to identify factors that are connected to an individual's behavior. Reviewing this literature highlights the role of personality in determining an individual's behavior, in particular, job-related behavior and performance.

*'Firms need to focus more on leadership behaviors of managers'*

## Research and key results

In the study, the researchers examine whether personality traits are associated with the skills and job performance of experienced auditors. The traits studied are the so-called Big 5 personality traits: (1) extraversion (characterized by being outgoing, dominant, and ambitious); (2) agreeableness (characterized by being good-natured, considerate, and tolerant); (3) openness to experience (referring to being imaginative and creative and preferring novelty to routine); (4) conscientiousness (reflecting being thorough, organized, and disciplined); and (5) emotional stability (indicating being calm and secure). The research team also studies 'bravery' (the courage to speak up) and the so-called 'Dark Triad', which measures the potential for dysfunctional behaviors (based on three factors sharing a common theme with respect to a lack of appropriate empathy and emotionality in interactions with others: narcissism, Machiavellianism and psychopathy).

Based on survey responses and internal audit firm data for around 1,600 Dutch auditors from the Big 4 and six mid-sized audit firms, in general the findings show that personality traits are associated with audit firm assessments of job performance. Traits can have a direct effect on job performance as well as

an indirect effect through their role on the auditor's job skill development (technical, commercial, leadership), which then in turn can affect overall job performance.

The findings indicate that commercial and technical skills are positively associated with performance assessment. Additional analysis shows that leadership skills are important in the job performance assessment of partners, but not for managers. This finding suggests firms need to focus more on leadership behaviors of managers in assessing their overall performance since they may well become partners, and leadership is an important skill for effective partner performance.

The results further highlight that extraversion is the strongest individual predictor of performance, and it affects performance both directly and indirectly through commercial skills. This is in line with the auditor's job involving a significant degree of interaction at both the manager and partner levels, and that an outgoing personality is helpful in being a successful manager and partner.

*'Firms need to focus more on leadership behaviors of managers'*

While the relationship between extraversion, skills and job performance is consistently positive, other traits exhibit more complex and conflicting relationships. For example, agreeableness is positively associated with commercial and leadership skills, but it is negatively associated with technical skills and with overall job performance. These opposing results suggest that for skills involving interaction, agreeableness is indeed beneficial, but it is harmful for technical skill development and overall job performance. A possible explanation is that a need for harmony might result in auditors being less comfortable with having the 'tough' conversations that are part of the auditor's job at the manager and partner level.

Similarly, the Dark Triad is positively associated with commercial skills, but has a direct negative relationship with overall job performance. This finding suggests that even though individuals who score high on the Dark Triad might be able to use their charm and manipulation to develop their

commercial skills, the malevolent traits of the Dark Triad ultimately are negatively associated with performance assessment. Another conflict is that conscientiousness is a positive predictor of technical skills and overall job performance, but it has a negative association with commercial skills.

*‘Willingness to speak up is beneficial for job skill development’*

The big picture that emerges is that these conflicting relationships among personality traits, skills and job performance, mirror the well-known tension that exists between the technical and commercial aspects of auditing. For commercial skills, a personality that is more outgoing, agreeable, and perhaps being not quite so careful, seems to be beneficial. The opposite is the case for technical skills which benefit from an individual who is careful and diligent, and less agreeable.

The other traits are each positively associated with one or more skills but have no direct relationship with job performance. Of particular

importance: ‘bravery’ is positively associated with each of the three skills, and thus has a significant indirect effect on performance. This suggests that the willingness to speak up, even when facing opposition, is beneficial for job skill development, but is not directly rewarded in the performance evaluation system.

### Practical implications

The findings have broad implications for audit firms and their human resource management practices. Some examples are mentioned next. First, in hiring decisions, since extraverts perform better, firms may want to hire people that are extraverted. Second, given that there are personality differences among auditors, job training could be more targeted around specific personality traits. For example, focused training could help individuals who are highly agreeable to better understand that sometimes there will be tensions and conflicts with the client and these cannot be avoided.

*‘Extraversion is the strongest predictor of performance’*

Other focused training might work with individuals who exhibit Dark Triad behaviors, to help them to better channel such behaviors in positive ways. Third, the results demonstrate that the age-old tension between the commercial and technical side of auditing is also reflected in the personality traits that are beneficial for each of the job skills. However, both skills are needed, so the challenge for audit firms is to find ways to manage and mitigate the potential tensions. Effectively managing this tension could potentially be achieved by hiring auditors with diverse personalities, since diverse personalities are needed. But it is also important to have targeted job training as suggested above to manage the conflicting effects of personality. Fourth, a key finding is that auditors become increasingly homogenous as they move from manager to partner, which suggests the existence of ‘typical’ characteristics desired in an audit partner, particularly extraversion. This finding should alarm those audit firms that are actively trying to increase diversity.

### Conclusion

Collectively, the findings provide evidence that individual differences in personality traits are important and are associated with the job performance of audit partners and managers, either directly or indirectly through job skills. Audit firms can use these results to improve their recruitment and training programs, promote diversity in personality profiles, and ultimately enhance the quality of their audits. ■

Working paper:



Practice note:







# Practicing the adage ‘likes like likes’ is not always beneficial

*Article: ‘Audit Partner-Manager Dyadic Fit and Team Functioning’  
by L. Pieper, M.R. Barrick, O. Bik, J.R. Francis, and A. Vanstraelen.*

## **PURPOSE OF THE STUDY**

Leadership studies mainly focus on the role of a single team leader, while in practice an audit team is usually led by two senior individuals: the engagement manager and the engagement partner. This study investigates the formation of audit partner-manager pairings (called dyads) on audit engagements, and the consequences this dyad formation has on the functioning of the engagement team.

## **MAIN FINDINGS**

The findings suggest that partners and managers that form a dyad are more similar in terms of their skills and leadership behaviors than would be the case for randomly matched partners and managers. However, dyad similarity is not always beneficial for the functioning of the engagement team. In fact, dyad similarity generally has a negative effect

on team climate and team performance. The exception is when the partner and manager are both highly skilled and demonstrate strong leadership behaviors. Otherwise, a complementary matching of skills and leadership behaviors of the partner and manager is superior and leads to better team climate and team performance.

## **PRACTICAL RELEVANCE**

The study provides audit firms with insights on how to optimize the composition of partner-manager dyads to improve team functioning, particularly since the audit partner chooses the manager most of the time (68 percent of the engagements in the study). This can help audit firms achieve more consistent and better audit results by consciously choosing complementary skill and leadership combinations within their teams.



## Background

Prior studies mainly focus on the relationship between individual leaders and team members, such as the relationship between the partner and the team or between the senior in charge and the team. However, in practice, an audit team is usually led by two senior individuals: the engagement manager and the engagement partner (in this study, this dual leadership is called a 'dyad'). While the partner has the ultimate responsibility for the engagement and supervision of the team, part of this responsibility is normally delegated to a (senior) manager. The manager is more involved in the day-to-day supervision of the team and is in regular contact with the partner. The specifics of this dual-leader structure are largely unexplored. Thus, to get a more comprehensive picture of how an audit engagement team functions, the joint role of the audit partner and manager is investigated.

*'Dyad similarity has a negative effect on team climate and team performance'*

## Research and key results

The authors draw on the theory of homophily to develop and test predictions. Homophily describes the natural tendency of individuals to associate with others who are similar to them ('likes like likes'). This study expects that audit partner-manager dyads are likely to form between individuals with similar skills (technical and commercial) and leadership behaviors, while controlling for demographic factors such as age and gender.

The data were collected via two consecutive surveys from the ten largest audit firms in the Netherlands, including the Big 4 firms. In one survey, 2,336 team members assess the skills and leadership behavior of the partner and manager. In the second survey 1,287 team members self-assess team climate and performance of the engagement team. Team climate is measured as the team's assessment of psychological safety, team commitment, and team identity. Team performance is measured by the team's assessment of their overall performance in meeting the audit firm's expectations. Psychological safety refers to an environment in which team members feel that is safe to speak up and share information that can improve the audit. Team commitment measures the commitment to a common goal, while team identity refers to the pride of working in the team.

The results suggest that partners and managers that form a dyad are more similar in terms of their skills and leadership behaviors than would be the case for randomly matched partners and managers. This fits the common sociological phenomenon that individuals have a natural tendency to associate with similar others. However, this dyad similarity is not always beneficial. The findings show that similarity generally has a negative effect on team climate (psychological safety, team commitment and team identity) and team performance. The exception is when the partner and manager are both highly skilled and both demonstrate strong leadership behaviors. Otherwise, a complementary matching of skills and leadership behaviors of the partner and manager is superior and leads to better team climate and team performance. This compensation effect is most pronounced for stronger managers compensating for weaker partners, which suggests that managers play a central role in dyadic performance and the functioning of the team.

An additional analysis highlights the joint influence of both the partner and the manager on the team, with the partner having more influence on psychological safety and team identity and the manager having the greatest influence on team commitment and performance. These findings further

underscore the relevance of the dual leadership structure and the need to consider both leaders when assessing team functioning. This is particularly relevant since the audit partner chooses the manager most of the time (68 percent of the engagements in this study).

*'The audit partner chooses the manager most of the time'*

## Practical implications

Audit partners are often given the choice of which manager they want to work with (in the sample, 68 percent of the cases). Understanding the consequences of that choice is important to the audit firm's goal of achieving consistent outcomes across engagements. This study informs audit firms with insights on how different dyad combinations can enhance the functioning of the team, which can ultimately improve audit quality. In most cases, the best audit outcomes occur when the partner-manager dyad has complementary skills and leadership behaviors.

## Conclusion

This study provides new insights for audit firms on how different dyad combinations can improve team functioning and performance. It emphasizes the importance of complementary skills and leadership behaviors within dyads for optimizing team performance and climate and offers a framework for audit firms to better manage and optimize their team leadership. ■

Working paper:



Practice note:



# Leader's voicing behavior leads to psychological safety

*Article: 'Partner-Manager Voice Modeling Behavior and the Effects of Mixed Messages on Audit Teams' by L. Pieper, M.R. Barrick, O. Bik, J.R. Francis, and A. Vanstraelen.*

## PURPOSE OF THE STUDY

The study aims to investigate how 'voice role modeling behavior' of managers and partners influences the psychological safety of audit team members and their speaking up about important matters. The study also examines how 'mixed messages' from leaders can undermine the positive effects of productive voice role modeling behavior.

## MAIN FINDINGS

The study shows that when a manager engages in voice role modeling behavior (i.e. promotes speaking up) there is a positive and dominant effect on an audit team's psychological safety and ultimately on team voice climate and team performance. However, when the manager is also seen to engage in negative counterproductive behaviors, such as taking 'short cuts' during the audit,

the positive effects of the voice role modeling behaviors are lost. Furthermore, the findings reveal that if (at least) one leader (either the partner and/or the manager) is enacting high levels of voice role modeling behavior, the team still has high psychological safety and team voice climate.

## PRACTICAL RELEVANCE

For audit firms, it is essential to train managers and partners in helping them to create and demonstrate an environment of psychological safety where team members feel free to speak up and stimulate team performance. They should also be made aware that inconsistent signals from team leaders can potentially compromise the team's sense of psychological safety, which leads audit team members to question whether it is safe to speak up.

## Background

Encouraging the use of voice behavior is an important goal of team leaders. This is particularly salient in audits, where a lack of voice behavior in the audit team can ultimately threaten audit quality, as important issues including potential fraud concerns are not brought forward, discussed, nor effectively resolved. The fundamental challenge in eliciting voluntary, discretionary voice of ideas, concerns, even challenges to the status quo or those with greater responsibility is that speaking up is interpersonally risky, may harm the actor or another's career, even jeopardize team harmony.

Successful leaders must therefore stimulate team member voice: they must encourage team members to freely speak up and share suggestions that improve decision-making, fix problems, or challenge the status quo with controversial information. When the leader actively engages with team members to encourage them to freely share ideas and opinions that differ from other teammates, the potential to improve a team's performance is enhanced. This is especially the case when multiple members are working on complex, knowledge intensive tasks that require collaboration in action teams such as audit teams.

## Research and key results

The primary purpose of the study is to explore how leader behaviors can enable team members to have a strong team voice climate, thereby enhancing team performance. The second purpose of the study is to fully account for all leader effects of dual leaders in hierarchically structured audit teams, since it is common to have two leaders in charge of an audit team.

*'Inconsistent behavior from leaders can negate these positive effects'*

The researchers tested whether leaders who exhibit voice behaviors will influence team psychological safety and whether, in turn, this will enhance the team climate of voice behavior and team performance. The study was based on an analysis of survey and proprietary data from 127 audit engagement teams with 754 auditors from the 10 largest Dutch audit firms. The results consistently show that when the team's psychological safety is higher, there is a stronger team voice climate which, in turn, leads to better team performance. The researchers find support for the notion that team psychological safety

increases when the direct supervisor (manager) is higher on voice modeling behavior, and this effect is accentuated with greater manager involvement with audit team (based on hours). There is no support for the effect of voice modeling behavior of the skip-level (partner) leader. So, there is a dominant influence of the manager as the day-to-day supervisor on team outcomes, and the more so when the manager is more involved in the team.

The findings also show that when the manager sends 'mixed signals' by exhibiting both voice modeling behavior and counterproductive acts (i.e. 'cutting corners' in audit work) at the same time, it leads the followers to question whether it is safe to speak up. That is detrimental to the manager's voice modeling behavior's positive effect on team safety.

*'Speaking up is interpersonally risky'*

In an additional analysis we do find that the partner's voice modeling behavior enhances team psychological safety, but only in the absence of the manager's voice modeling behavior, and that more partner involvement in the engagement has an accentuating

effect on the partner's voice modeling behavior (just as it did for managers). The takeaway here is that voice modelling behaviors by either the manager alone, or by the partner alone, enhances the team's psychological safety.

*'There is a dominant influence of the manager on team outcomes'*

## Practical implications

Voice modeling behaviors by managers are important in creating psychological safety for the team, which in turn leads to a stronger team voice climate and stronger team performance. In the absence of such behaviors by managers, a partner's voice modeling behaviors can lead to the same positive outcomes. These positive effects are enhanced when managers and partners are more involved with the engagement team. The training implication is that managers and partners both need to be trained in how to effectively demonstrate through their actions and leadership behaviors that they have a genuine commitment to psychological safety and a strong climate for team voice.



## Conclusion

The study concludes that leadership behavior, especially from managers, plays a crucial role in creating a psychologically safe environment within audit teams. This environment encourages team members to speak up, leading to better team performance. However, inconsistent behavior from leaders, such as exhibiting both positive voice behavior and negative counterproductive behavior, can negate these positive effects. By taking this into account, audit firms can create an environment where team members feel safe to speak up, leading to improved audit quality and team performance. ■

Working paper:



Practice note:



# Dual Leadership and Team Performance

*Article: 'It Takes Two to Make a Team Go Right: Effects of Dual Team Leaders' Individualized Consideration and Initiating Structure on Team Efficacy, Performance, and Viability' by M.R. Barrick, O. Bik, J.R. Francis, B.L. Kirkman, L. Pieper, and A. Vanstraelen.*

## PURPOSE OF THE STUDY

The aim of the study is to investigate how *task-oriented* and *people-oriented* behaviors of partners and managers affect team efficacy, performance, and viability in a dual leadership team structure.

## MAIN FINDINGS

The results show that teams show a higher level of efficacy when at least one leader exhibits task-oriented (so-called 'initiating structure') behaviors and the other leader exhibits people-oriented (so-called 'consideration') behaviors. This is a complementary effect. Team efficacy is highest when both the partner and manager demonstrate high levels of consideration behaviors, irrespective of their initiating structure

behaviors. There is also greater team efficacy when a partner shows initiating structure as well as consideration behaviors. The authors call that the 'super partner effect'.

## PRACTICAL RELEVANCE

Organizations should emphasize and coordinate both types of leadership behaviors in both partners and managers, with partners focusing on initiating structure and both partners and managers exhibiting consideration behaviors. Leadership training should particularly focus on developing consideration behaviors of both the partners and managers to enhance team trust and performance. This can significantly improve the quality of audit teams and the audits they conduct.

*‘Both partners and managers need specialized training’*

## Background

In many modern organizations, including audit firms, leadership is increasingly shared between two team leaders. But how is this related to team outcomes? This study examines the impact of dual leadership structures within audit teams, where both the audit partner and the audit manager fulfill leadership roles. The goal is to understand how different leadership behaviors (task-oriented *initiating structure* behaviors and people-oriented *consideration* behaviors) affect the efficacy (the team’s shared belief in its capacity to achieve a high-quality audit), performance (the partner’s assessment of the team’s overall performance), and viability (the self-assessed willingness of team members to work together again in the future, which is an indicator of team success) of audit teams.

## Research and key results

The study was conducted among 93 Dutch audit teams with a total of 448 team members. The leadership behaviors that were studied were, on the one hand the initiating structure behaviors: behaviors involving assigning tasks, setting up communication channels, initiating actions, and defining how tasks should be executed and within what timelines; and, on the other hand consideration behaviors: behaviors focusing on caring for team members’ well-being, building mutual trust, and enhancing team trust.

Overall, the results show that the two leadership behaviors affect team performance and team viability via efficacy. That is, the leadership behaviors have a direct effect on efficacy (the team’s belief in its capability to do good audits), which in turn is positively related to audit team performance and team viability.

*‘Initiating structure behaviors are found to be less important’*

**Key result 1: complementary effect**  
When at least one leader exhibits high initiating structure behaviors and the other leader high consideration behaviors, a complementary effect emerges. The team members then respond better to the task-oriented behaviors of one leader thanks to the supportive and caring behaviors of the other leader, leading to higher team efficacy.

*‘Leadership training should enhance team trust and performance’*

**Key result 2: supplementary effect**  
Teams function even better when both leaders exhibit high levels of consideration behaviors: consideration by one leader is then reinforced by the other leader. This significantly enhances team efficacy, regardless of the initiating structure behaviors. This finding is referred to as the ‘power of consideration’. Audit teams benefit when both leaders are high in consideration behaviors and able to establish strong bonds with team members.

**Key result 3: ‘super partner’ effect**  
When the partner shows both high initiating structure behaviors and high consideration behaviors, this leads to a ‘super partner’ effect, which significantly enhances team efficacy. This occurs because the partner, as the highest leader, sets the tone for the audit.

### **Key result 4: initiating structure versus consideration**

Initiating structure behaviors are found to be less important than consideration behaviors within audit teams. This is not surprising given that the nature of the audit work be done and task assignments, channels of communication, and timelines are pretty standard across audit engagements.

Furthermore, audit work is episodic in nature: teams come together for periods such as planning and interim work, disband, and come together again for year-end work. Given this discontinuity, it is especially important for partners and managers to help audit teams to believe in themselves (efficacy) through high levels of consideration behaviors.



## Practical Implications

The findings have practical implications for organizations that use dual leadership structures. First, organizations should ensure that both initiating structure behaviors and consideration behaviors are strongly emphasized by both leaders. This means that audit partners focus on task-oriented aspects while both leaders create a supportive environment. It is important that leaders coordinate their actions in such a way as to both complement and supplement each other. Second, partners and managers both need to exhibit consideration behaviors to effectively lead audit teams. By jointly demonstrating high levels of consideration behaviors, leaders send a powerful and consistent message to their teams that they can address challenges and performance issues. This is especially important in an audit context where teams often have a fluid compositions and their work is episodic in nature, starting and stopping multiple times during different phases of the audit taskwork. Third, both partners and managers

need specialized training to support and improve their consideration behavior skills. This leads to better team efficiency and performance.

## Conclusion

This research shows that the combination of initiating structure behaviors and consideration behaviors by both partners and managers within audit teams results in higher team efficacy. The results emphasize the importance of consideration behaviors in building team trust, especially in an episodic work environment like that of audit teams. Effectively combining these leadership behaviors can significantly improve overall audit team performance. ■

Working paper:



Practice note:





# Other FAR publications by Jere Francis

## ‘Perspectives on Audit Firm Culture’

This practice note discusses audit firm culture and examines the logic and measurement challenges underlying the ‘culture initiative’ of the Dutch Authority for Financial Market (AFM). For example, can culture changes be linked to measurable improvements in audit quality? Do the benefits (potentially better audits) exceed the costs, and will clients pay for the increased audit costs? Francis also reports on interviews with Big 4 leaders on how they are changing their internal cultures in response to pressures from AFM. He concludes with a discussion of the ‘competing values framework’ which is widely used in the organizational behavior literature to study culture, and discusses how this approach can be used to assess audit firm culture, as well as providing a framework for guiding culture change in audit firms. ■



## ‘Audit Externalities and Regulation’

In this paper on regulation, Francis explains why audits are regulated. Audits are regulated because the major parties (auditors and their clients) settle for lower levels of assurance. Society requires higher levels of assurance since they (e.g., future shareholders, banks, employees, customers) benefit from higher levels of assurance. Legislation and regulation purportedly motivate auditors to set higher levels of assurance (and thus audit quality). However, since auditors are required to produce on average a higher level of quality audit than the market requires, and arguably incur higher costs than the client is willing to pay, the question is who foots the bill for the higher cost: the auditor, the client, future shareholders, banks or society as a whole? ■



## ‘What Exactly Do We Mean by Audit Quality?’

The concept of audit quality is of fundamental importance in auditing, but there is little agreement on its definition or measurement. Francis reviews several approaches to understanding audit quality and argues that the most meaningful measure is based on what the auditor is legally required to do, which is to opine on the client’s financial statements. This has resulted in a black and white (pass/fail) binary model of the audit report. However, it is known that there is a continuum of quality in the audited financial statements of clients, and that much of this variation is the result of the client’s accounting policy choices and estimations. Yet most firms receive a standard clean opinion despite the wide variation in financial statement quality. Francis argues that while it is important for auditors to follow procedural

rules (standards) to gather sufficient evidence, it is equally important that auditors carefully monitor and constrain, where necessary, a client’s aggressive accounting policy choices and estimates. The logical consequence is that the quality of audited financial statements and the quality of the audit report are related, and both are continuums, fifty shades of grey. Thus, audit report quality is better understood as a spectrum rather than a binary pass/fail model. Going forward, the challenge is to find ways for an auditor to convey information about the quality of audited earnings that go beyond the binary model of the current audit report. ■





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