

**Practice Note\***

**“Does Personality Relate to Job Performance of Partners and Managers?”**

**Report Prepared for the Foundation for Auditing Research\*\***

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**Executive Summary**

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, our study uses validated survey instruments to measure the personality traits of Dutch audit partners and managers. Contrary to what one might think, there is wide variation in the personality traits of auditors – they’re not homogenous. The organizational behavior (OB) literature documents the importance of personality in explaining job performance. Consistent with the OB literature, we find that personality traits do have a significant association with the job performance of audit partners and managers, as assessed by audit firms in their annual performance reviews. There are direct effects of some personality traits on performance such as “extraversion” which is positively associated with performance. There are also indirect effects on performance in which personality traits affect job skills (technical, commercial, leadership) and these job skills, in turn, affect job performance. The study has implications for hiring, and for targeted training to better manage the effects of diverse personality traits among auditors. Finally, there are implications for diversity. As people move from manager to partner, there is a narrowing of personality traits, and extroverted individuals are more likely to be rewarded and promoted to partner. Yet firms say they want diversity in their firms, and we argue that personality traits are an important dimension of diversity that firms need to explicitly manage.

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\*\*The full paper is available on request:

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## Does Personality Relate to Job Performance of Partners and Managers?

### Synopsis

We investigate if personality traits are associated with the skills and job performance of experienced auditors. The traits studied are the so-called Big 5 personality traits: Extraversion, Agreeableness, Openness to Experience, Conscientiousness, and Emotional Stability. We also study, Bravery, or the courage to speak up, and the so-called Dark Triad which measures the potential for dysfunctional behaviors. Each of these personality traits is described in detail in the Appendix.

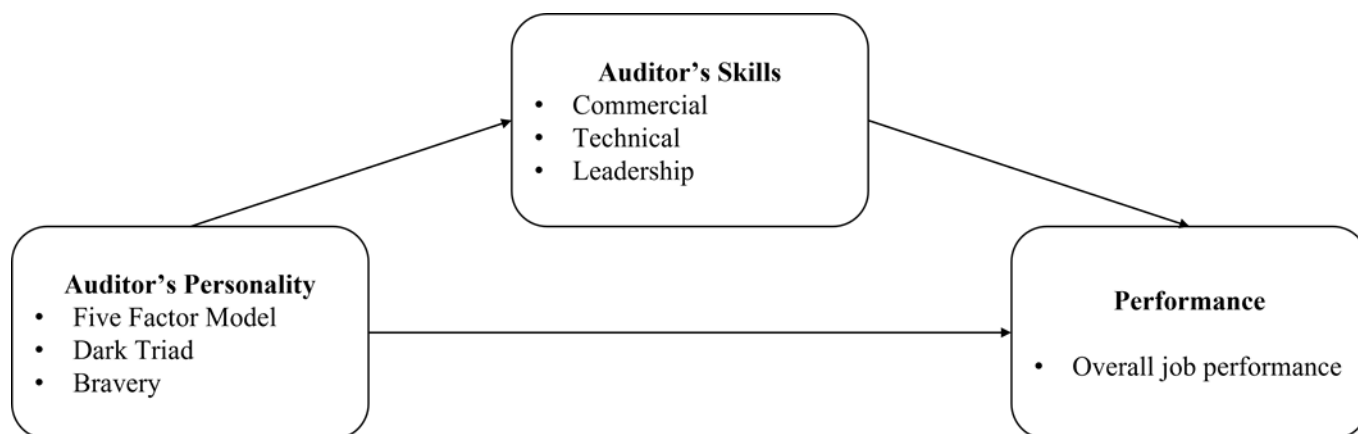
Based on survey responses and internal audit firm data for around 1,600 Dutch auditors from the Big 4 and six mid-sized audit firms, we first provide descriptive evidence of significant variation in auditors' personality traits. Before getting to the job performance results, we report some descriptive differences between auditors from the Big 4 firms and non-Big 4 firms.

Auditors at Big 4 firms are, on average, more *Agreeable*, more *Conscientious*, more *Extroverted*, more *Open to Experience*, and score lower on the *Dark Triad* than their non-Big 4 counterparts. Big 4 auditors also assess themselves higher on their *Technical* and *Leadership* skills, while non-Big 4 auditors assess themselves higher on their *Commercial* skills. We also find that auditors become increasingly homogenous as they move from manager to senior manager, to director and partner.

Next, we find that personality traits are associated with skills that are important for the auditor's job – *Commercial*, *Technical*, and *Leadership* skills. The tension that exists between the commercial and technical aspects of the audit is also reflected in opposing personality profiles that are beneficial for each of the skills.

To preview the study's findings, we find that audit firm assessments of job performance are associated with personality traits, both directly and indirectly through their effect on skills. Collectively, these results add to our limited understanding of characteristics that affect individual auditor performance, and, by implication, the quality of audits.

To formally test personality traits, we used the model depicted below in which the traits can have a direct effect on job performance. Traits can also have an indirect or mediating effect through their role on the auditor's job skill development (*Technical, Commercial, Leadership*), which in turn can affect overall job performance.



The model depicted above finds 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.

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. Additional research is needed to understand these opposing associations.

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 high *Dark Triad* individuals 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.

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 – *Emotional Stability*, *Openness to Experience*, and *Bravery* – 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.

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. However, an important trait like Bravery (courage), does not appear to be directly recognized and rewarded in the performance assessment system of audit firms.

### **What are the Implications for Practice?**

The findings have broad implications for audit firms and their human resource management practices. Some examples follow.

- First, in hiring decisions, since *Extroverts* perform better, firms may want to hire people that are extraverted. On the other hand, as noted below, a case can be made for personality diversity in audit firms as part of a broader approach to diversity.
- 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. 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. For example, as noted above, *Agreeableness* is helpful for *Commercial* skills, but harmful for *Technical* skills. Further analysis shows that the negative effect of *Agreeableness* is driven by an individual's altruistic orientation, i.e., the caring for others' well-being and the need for harmony. To counteract the possible negative effects of being too agreeable, the audit firms can create better training in negotiation skills, and how to raise problems and handle conflicts with the client, which could help highly agreeable individuals to be more comfortable with interactions that risk the harmony in a team and the audit.
- 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 *Extroversion*. This finding should alarm those audit firms that are actively trying to increase diversity. Importantly, diversity is broader than gender and race, and some firms are actively promoting diversity across multiple (broad) dimensions. We would argue the diversity of personnel is another aspect of broad diversity. Yet, our results provide audit

firms with empirical evidence that, on average, they promote similar individuals, which runs counter to the broad goal of diversity.

- Fifth, the evidence indicates that *Leadership* skills of managers are not a factor in their job performance assessment. Yet many of these managers will become partners where *Leadership* is an important part of successful job performance. Leadership training should begin early and should be a factor in the job performance system.
- Sixth and finally, the findings are descriptive of “what is” rather than “what should be” important in job performance appraisal and assessment. It is possible that the current systems overvalue certain traits, such as *Extraversion*. As noted, it is the single-most dominant personality trait across all analyses. An extrovert’s tendency to stand out in a crowd might bias assessments, resulting in a lack of diversity in personality traits among managers and especially partners. Hence, if diversity in personality profiles among partners is desirable, then firms may need to re-evaluate their performance evaluation systems to de-emphasize *Extraversion*.

## Appendix Definition of Personality Traits

In the 1980s, psychology research converged to the five-factor model of personality (often referred to as ‘Big 5’ personality traits or the ‘FFM.’ The five factors included in the model are agreeableness, emotional stability, extraversion, conscientiousness, and openness to experience.<sup>1</sup>

- *Agreeable* individuals are good-natured, considerate, and tolerant, rather than antagonistic and uncooperative.
- *Conscientiousness* reflects dependability and achievement orientation. That is, being thorough, organized, and disciplined rather than sloppy, distractible, and disorganized.
- *Emotionally Stable* individuals are more calm and secure rather than ill-tempered and anxious.
- *Extraversion* is characterized by being outgoing, dominant, and ambitious rather than shy, quiet, and reserved.
- *Openness to Experience* refers to individuals who are imaginative and creative and prefer novelty to routine.

These five traits are considered to “comprehensively capture the critical stable individual differences in personality.” (Barrick et al., 2013, p. 134). A considerable body of research has used the FFM to understand how personality traits are associated with employee behavior. For example, prior primary and meta-analytic studies show that while some personality traits are related to overall job performance in virtually all jobs, other traits relate to only certain aspects of job performance or job performance in only a few jobs (Barrick & Mount, 1991; Barrick et al., 2001).

In general, the two personality dimensions predictive of job performance across occupational groups and job criteria are conscientiousness and emotional stability (Barrick & Mount, 1991; Barrick et al., 2001). It seems intuitive that employees who are more dependable, thorough, persistent, and hard-working (high conscientiousness) and who are calmer, secure, and not depressed (high emotional stability) will perform better overall. The other personality dimensions are valid predictors of performance in some occupational groups or for a specific job performance criterion. For example, extraversion is positively associated with performance when the tasks involve a high degree of interaction, for instance, when the job involves mentoring or leading (Barrick et al., 2001). When interaction mainly consists of helping, cooperating, and nurturing others, more agreeable employees perform better (Mount, Barrick, & Stewart, 1998). Openness to experience (i.e., employees that are intellectual, curious, and imaginative) exhibits a positive association with willingness to learn, and hence training performance (Barrick & Mount, 1991).

While the traits in the FFM are considered a good indication of a ‘normal’ personality, psychology research identifies additional personality factors that extend the FFM. Paulhus and

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<sup>1</sup> More recently, a sixth factor (Honesty-Humility) was added to the traditional five factors. This factor is shown to have predicted power above and beyond the FFM, especially in Non-Western cultures. This factor was also measured in the survey, but an exploratory factor analysis on the data clearly confirms the existence of five factors and the sixth factor does not increase the variance explained. Hence, the focus is on the traditional FFM.



Williams (2002) introduce the 'Dark Triad of Personality', which captures malevolent qualities at a subclinical level. The Dark Triad consists of three factors, narcissism, Machiavellianism and psychopathy. All three factors share a common theme with respect to a lack of appropriate empathy and emotionality in interactions with others. Individuals scoring high on the 'Dark Triad' often use manipulation "to 'get ahead' while disregarding 'getting along'" In their meta-analysis, O'Boyle, Forsyth, Banks, Story, and White (2015) investigate how the Dark Triad affects work behavior, particularly job performance and counterproductive work behaviors. They find that Machiavellianism and psychopathy are associated with decreased job performance, and counterproductive work behavior increases in all three components of the Dark Triad. This negative effect is in line with Bailey (2015), who shows that individuals exhibiting higher levels of psychopathy are more likely to accept unethical behavior in auditing. Despite these negative aspects of the Dark Triad, Hobson et al. (2020) argue, and show experimentally, that the Dark Triad traits can also be beneficial for an auditor, as high Dark Triad auditors are more resistant to lapses in professional skepticism arising from social interaction. Thus, the Dark Triad is included as part of an auditor's personality profile.

*Bravery* is another personality factor associated with workplace behavior, especially in jobs that face conflicting pressures (Peterson & Seligman, 2004). It captures the extent to which "one is willing to accomplish goals in the face of opposition, either external or internal" (Peterson & Seligman, 2004). As an auditor's job regularly involves speaking up, even when facing opposition (e.g., as part of exercising professional skepticism), this could potentially be an important trait for an auditor.

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