

Practice Note*

“Audit Partner-Manager Dyadic Fit and Team Functioning”

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Executive Summary

This study investigates the formation of audit partner-manager pairings (called dyads) on audit engagements, and the consequences of this dyad formation on the functioning of the engagement team. Prior 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 manager and the engagement partner. This dual-leadership structure and its potential effect on the team are largely unexplored topics. We draw on the theory of homophily to develop and test predictions using data from 221 Dutch engagement teams. The analyses 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. Team performance is self-assessed: how well the audit engagement team performed. Team climate is measured as the team’s assessment of psychological safety, team commitment, and team identity. Our findings on partner-manager dyads can inform audit firms on how to better assign and manage their audit teams, particularly since the audit partner chooses the manager most of the time (68 percent of the engagements in our study).

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**The full paper is available on request:

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Audit Partner-Manager Dyadic Fit and Team Functioning

This study examines how different audit partner-manager combinations, or dyads, influence the functioning of an audit engagement team. Standard-setters emphasize the leadership responsibilities for managing and achieving quality on the audit engagement, which includes direction and supervision of the members of the engagement team, and review of their work (e.g., ISA 220, PCAOB AS 1201). While the engagement partner takes overall responsibility for the audit engagement quality and signs the audit opinion, we know from practice that it is the “subteam” of partners and managers that form the audit team leadership (e.g., Cameran, Ditillo, & Pettinicchio, 2018). This dual leadership structure is the focus of this study.

Prior research on audit engagement teams mainly focuses on the role of one leader alone and identifies different conditions that improve team functioning, including audit team composition (e.g., Hossain, Yazawa, & Monroe, 2017; Cameran et al. 2018), and team climate (e.g., Gissel & Johnstone, 2017; Gold, Gronewold, & Salterio, 2014). However, the dual partner-manager leadership structure and its potential effect on the dynamics of the audit engagement team, and team performance are largely unexplored. We contribute to the literature by investigating the formation of audit partner-manager dyads and the consequences of this formation on the functioning of the engagement team.

We use the theory of homophily from the sociology literature to inform our predictions. Homophily describes an individual's natural tendency to associate with similar others (McPherson, Smith-Lovin, & Cook, 2001), and evidence of this pattern has been documented in all types of relationships, ranging from marital relations and close friendships to work relationships and other loose connections (Ertug, Brennecke, Kovács, & Zou, 2022; McPherson et al., 2001). Following homophily theory, we expect that audit partner-manager dyads are more likely formed among individuals with similar skills (technical and commercial) and leadership behaviors, while controlling for similarity in demographic factors (age, gender). We focus on technical and commercial skills, and leadership behaviors, because these are described by audit firms as key competencies of their partners and managers.

Dyad Formation Results

To test our predictions, we collect data via two consecutive surveys from the ten largest audit firms in the Netherlands, including the Big 4 firms. In one survey, team members ($n = 2,336$) assess the skills and leadership behavior of the partner and manager. In the second survey ($n = 1,287$),

the team members self-assess team climate and performance of the engagement team. 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 identify refers to the pride of working in the team. Both commitment and identify have been shown in the OB literature to enhance the performance of teams. Team climate and the team's self-assessment of performance are important because these can have a direct effect on the quality of the team's audit. Details of the surveys and variables are reported in the Appendix.

Dyad Formation

For our first analysis, examining the dyad formation, we create a sample of all "hypothetical" partner-manager dyads that *could* have occurred in an office or nearby region. Consistent with the theory of homophily, the result of this analysis shows that the formed audit partner-manager dyads are more similar in terms of their skills and leadership behavior than the random pairs composed from the available partner-manager pool. This pattern holds both for dyads with managers self-selected by the partner (68%) and for dyads with managers centrally assigned to the partner (32%).

How do Partner-Manager Dyads Affect Team Climate and Performance?

Next, we examine how the dyad similarity influences the functioning of the team. Dual-leadership structures require coordination and cooperation between the two leaders to manage the team effectively. Similarity can facilitate cooperation by increasing communication (Reagans, 2005) and trust (Ahlf, Horak, Klein, & Yoon, 2019) and establishing a shared understanding (Downar, Ernstberger, & Koch, 2021) between the members of the dyad. This suggests that dyad similarity might positively influence the team.

However, similarity can also result in biased decision-making (e.g., Ertug et al., 2022; Janis, 2008). Dyad members could rely too heavily on their (perceived) similarity rather than on their underlying abilities. In addition, while increased similarity can improve the communication between the dyad members, it might not automatically translate into a better team functioning team if the leaders do not know how to communicate with other team members. Thus, the direction of the relationship between the dyadic fit and team functioning is not clear.

Partner-manager dyad similarity, by itself, does not tell us about the level the skills and leadership behaviors. A partner-manager dyad can be similar in skills and leadership behaviors at

differing levels. For example, a partner-manager dyad can be similar with high levels of skills and strong leadership behaviors; or a dyad can be similar with “medium” levels of skills and leadership behaviors; and dyads can even be similar with “low” levels of skills and leadership behaviors. We test these differing levels of dyad similarity.

What do we find? Dyad similarity, per se, is not always beneficial for the functioning of the engagement team. In fact, it is only when the partner and manager are both highly skilled and demonstrate strong leadership behaviors that dyad similarity results in better audit team performance and audit team climate (psychological safety, team commitment, team identity). Otherwise, better team climate and performance occurs when partner-manager dyads have complementary skills that compensate relative strengths and weaknesses in the dyad team. For example, a manager might have strong skills, but relatively weak leadership behaviors. Such a manager would ideally be paired with a partner that has strong leadership behaviors. In other words, a stronger manager (or partner) can compensate a weaker partner (or manager). Our results show that 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.

In an additional analysis, we explore whether one dyad member influences the functioning of the team more strongly. The results highlight the following points:

- It is not one leader alone but both the partner and manager who influence the team jointly.
- The partner seems to matter more for psychological safety and team identity.
- The manager's influence is greatest for team commitment and team performance.

These findings further underscore the relevance of considering the dual-leadership structure.

Practice Implications

Collectively, our results contribute to the growing literature on the functioning of audit teams and are relevant to audit practice. We provide novel insights on the role of audit partner-manager dyads who jointly lead the audit team. To date, prior literature has primarily focused on the role of one leader alone, which left the specifics of the dual-leadership structure in an audit engagement team largely unexplored. Our work addresses this gap.¹

¹ A recent study by Downar et al. (2021) uses a German setting to study the dyad relation between a lead engagement auditor and a concurring review auditor. Our study is different in two ways. First, we focus on the dyad that is most central to the engagement team and where both dyad members supervise the engagement team. In contrast, a concurring auditor is tasked with reviewing the work of lead auditors and is not typically involved in any supervision

Our study has implications for how audit firms manage their audit teams: specifically, how to better determine the composition of the partner-manager dyad. Audit partners are often given the choice of which manager they want to work with (in our 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. Our study informs audit firms with insights on how different dyad combinations can enhance the functioning of the team, which can ultimately improve both audit effectiveness and efficiency. In most cases, the best audit outcomes occur when the partner-manager dyad has complementary skills and leadership behaviors.

of the team. Second, we extend the findings by Downar et al. (2021) by considering how similarity in skills and leadership behavior, rather than demographic factors alone, affects the formation of a dyad.

Appendix

Survey Instruments for the Measures Used in the Study

Two surveys are used for the study. The leader-survey measures key constructs related to audit partners' and managers' skills and leadership behaviors set, as assessed by audit team members. The team-survey featured questions on the team climate and team performance, as self-assessed by members of the team, excluding partners and managers. For all measures, a minimum of 3 raters is required.

Skills. We developed a new measurement scale to capture the unique skill set that is required to perform the job of an auditor. The scale is based on the set of skills the Big 4 audit firms use to describe the competencies of partners and managers (as part of their internal competency mapping). The skills we examine are commercial skills and technical skills. Higher scores indicate stronger skills and are based on the average score of ratings by team members.

Leadership Behaviors. To assess the leadership behavior of the partner and manager, we rely on previously established instruments from the team science literature. A team leader must handle two different phases of taskwork: transition and action. The transition phase includes planning and evaluation activities to foster goal attainment, whereas the action phases contains the actual work activities to accomplish the team's goal. The needs that arise in each phase are distinct and a good leader recognizes these needs and implements different leadership behaviors in each phase. We include six questions to capture a leader's transition behavior, and ten questions for action behavior. These questions are based on Morgeson et al. (2010). A higher score on this factor implies that the partner or manager implemented leadership behaviors more frequently. We added the scores for both phases to derives a single leadership score for each partner and manager, based on the average score of team members' ratings.

Team Climate: Psychological Safety, Team Commitment, and Team Identify

Team climate is self-assessed by members of the audit team in the team-survey. The final score for each team is the average of all raters' responses.

Psychological Safety. Given the importance speaking up and sharing information, especially by junior team members, psychological safety is an important aspect of the team. We use a six-item survey instrument from Edmondson (1999).

Team Commitment. A key antecedent of team performance is affective commitment to the team, which implies that team members are committed to a common goal and work towards this goal together. We use a five-item survey instrument by Kirkman and Rosen (1999).

Team Identity. In order to form a team, rather than being a simple work group, individuals need to identify with the team and share a feeling of pride when working in the team. We adapt a three-item survey instrument by Kirkman and Rosen (1999).

Team Performance. We asked all team members to assess how well the engagement team performed overall in meeting their firm's audit objectives. The self-reported measure is from a five-item survey instrument by Kirkman and Rosen (1999).

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