

# FAR Master Class

Partners, Managers & Leadership Behaviors

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# The Relative Importance of Auditor Characteristics Versus Client Factors in Explaining Audit Outcomes

(Cameran, Campa & Francis, JAAF 2022)

**Audit Engagement Outcomes: Abnormal Accruals; Restatements; GC Opinions**

Variance Decomposition Analysis {UK Panel Data 2009-2015}

- **Client Factors**            **64%**
- **Partners**                    **27%**
- Audit Offices                7%
- Audit Firms                 2%

**Partners are important – But how do they differ from each other?**

# Today's Theme

## How Do Partners (Managers) Differ?

- **Different personality traits** of partners/managers can affect job performance, and, by implication, performance of their audit teams and ultimately audit quality
  - Study 1
- **Different leadership behaviors** of partners/managers can affect audit team climate & team performance
  - Studies 2, 3, 4 & 5

# The Team



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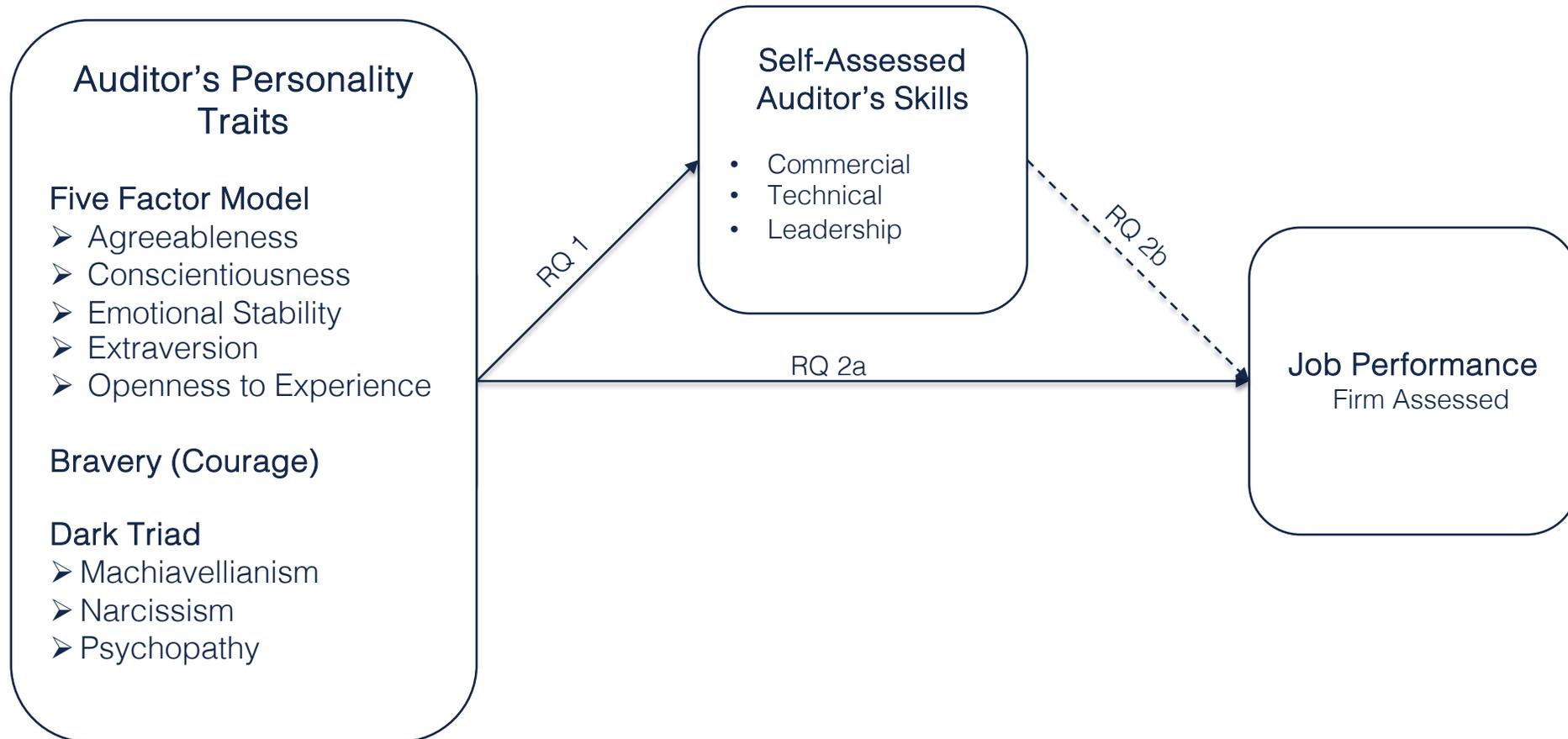


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# Study 1: Personality Traits & Job Performance of Partners & Managers (Personality → Job Performance → Audit Quality?)



# Results – Personality Does Matter!

- Skills → Firm-Assessed Job Performance:  
Commercial (+) Technical (+) Leadership (+) **[but only for partners]**
- Personality → Performance [Direct Effect]  
Extraversion (+), Agreeableness (-), Dark Triad (-)
- Indirect Effect on Performance via Skills as Mediator  
All traits associated with 1 or more skills
- Some Contradictions & Tensions  
Agreeableness & Openness: Good for Commercial skills; bad for Technical skills  
Conscientiousness: Good for Technical skills, but bad for Commercial skills  
Extraversion & Dark Triad: Good for Commercial skills; Bad for Leadership skills
- **Implications: Hiring; Targeted training; and Partner-manager pairings**
- **Diversity is desirable; Is “extroversion” over-reward?**

# Questions

# How Do Leadership Behaviors Affect Audit Team Performance ?

- We study leadership behaviors of Partners & Managers
  - Behaviors → Team Effects → **Audit Outcomes/Quality**
- Why Partner and Managers?
  - Top-level Team Leadership
  - Dual Leadership Dynamics (little known)
  - Seniors have been studied to some extent

# Study 2: Partner-Manager Dyads



**Engagement Partner:** ultimately responsible for the engagement; signs the audit opinion



**Engagement Manager:** closer supervision of the engagement team



**Engagement Team:** complete most of the audit procedures

- The engagement is completed by a hierarchically structured audit team.
- Scant evidence on engagement teams, **even though a well-functioning audit team is assumed to be a key input to audit quality.**
- Seniors play a role in team's success (Nelson et al., 2016, Morgeson et al., 2010).

→ But the senior leadership is the partner-manager dyad

→ **Little prior evidence on partner-manager dyads**

→ **How do they affect teams?**

# Research Questions

1.

*How are the partners and managers selected and matched?*

2.

*How does the partner-manager dyad influence the functioning of team?*

# Contribution

## Contribution to the academic literature:

- Our study is among first to study the **joint role** of the audit partner & manager.
- Provides new insights on the functioning of audit teams by using data from actual teams.

## Contribution to audit practice:

- Our study provides the firms with insights on how different partner-manager dyads influence the team. The findings could be used when making team composition decisions.
- Audit firms routinely grant audit partners the authority to select their own engagement manager (in our study, 68 % of cases) and the audit firms should understand possible consequences of that choice.

# Theoretical Development

- **Homophily** describes individuals' natural tendency to associate with individuals who are similar to themselves.
- Homophily is evident in all types of relationships.
- Psychology research provides evidence for the **cognitive processes underlying** homophily by showing that attraction is affected by perceived similarity.



# Hypothesis One

- Following the theory of homophily, we argue that partners and managers who form a dyad tend to be similar.
  - Given the professional context, we focus on **similarity in working style** (this captures how individuals structure, organize and complete their work).
    - For a very small subsample, we also find “personality” similarity
-  Given a choice, partners & managers will self-select into a working relationship with “similar others” for ease of communication and other factors that make the coordination of activities easier.

**H1:** Audit partners and managers who form a dyad are, on average, more similar than partners and managers who do not form a dyad.

# Dyadic Fit and Team Functioning

- A **real audit team** calls for both individual work & team collaboration  
*“A team is greater than the sum of its parts.”*
- Conditions that turn a group of individuals (work group) into a cohesive team
  - Team Climate or Team Dynamics
  - **Psychological Safety:** Individuals feel safe to speak up without fear of negative consequences of self-image, status, or career.
  - **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.
  - **Team Commitment:** Team members are committed to a common goal, and work together towards this goal.
  - **Team Performance:** Meets goals, meets service standards, is a productive team

# Hypothesis Two

+

## Positive Effects of Similarity

- Being similar results in affective closeness and interpersonal trust
  - Similarity helps to establish a mutual understanding and facilitates communication
- Better cooperation between the partner and manager *positively* influences the team.

-

## Negative Effects of Similarity

- **Attribute substitution:** Rely on (perceived) similarity rather than the underlying ability of the other dyad member
  - Being similar can create biases and foster “group think”
- This suggests a *negative* influence on the team.



**H2:** Audit partner-manager dyadic fit influences the functioning of the audit engagement team.

# Data Collection and Sample

- Two surveys with **ten participating audit firms** in the Netherlands (the Big 4 and six-medium sized firms) + internal firm data



- **“Leader-Survey”**: engagement team members assess the partner and the manager on a particular engagement (2,336 responses for 661 unique leaders for 381 engagements)
- **“Team-Survey”**: engagement team members assess the team climate (1,287 responses for 380 engagements)

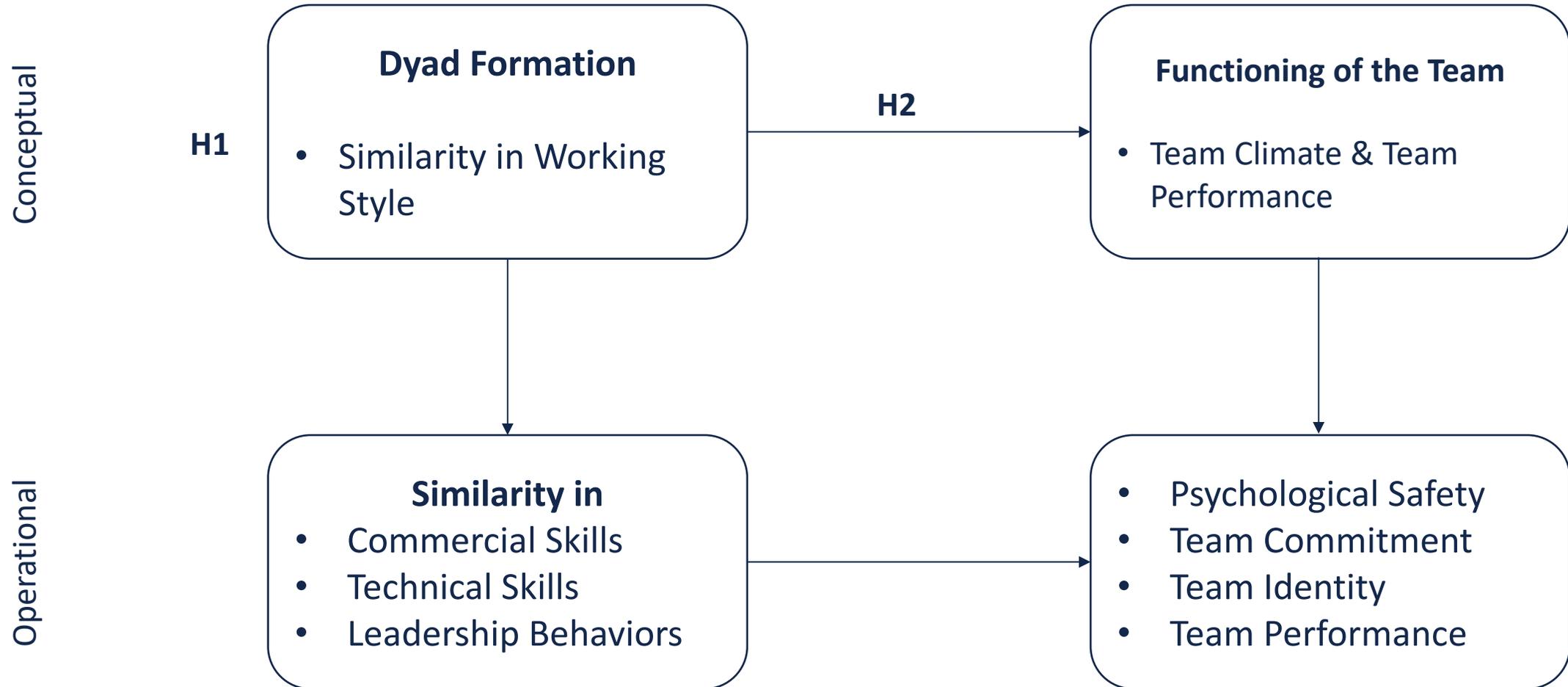


**Final Sample of 211 engagements** (for which both partner and manager received at least three observer-ratings and internal firm data is available).

# How is Leadership Defined & Measured?

- A team leader must handle two different phases of taskwork: transition and action.
- **Transition phase** includes planning & evaluation activities to foster goal attainment
- **Action phase** contains the actual work activities to accomplish the team's goal.
- We include **six questions** to capture a leader's transition behavior, and **ten questions** for action behavior, based on **Morgeson et al. (2010)**. A higher score implies the partner/manager implement leadership behaviors more frequently.
- We added the scores for both phases to derive a single leadership score for each partner and manager, based on the average score of team members' ratings.

# Conceptual Framework



# Research Design H1

- To show that the formed dyads are more similar than randomly matched dyads (H1), we conduct a *counterfactual analysis*.
- Based on all available partners and managers within the sample, we create all possible dyad matches (*per firm-region*). This yields 2,000 possible dyads.

We then

Partner	Manager	Possible Dyad
Partner 1	Manager A	Partner 1 – Manager A, Partner 1 – Manager B
Partner 2	Manager B	Partner 2 – Manager A, Partner 2 – Manager B

*kills*

- Based on H1, we expect  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  to be **positive** and significant.

# Results H1 – Dyad Formation

**Table 2:** Counterfactual Analysis – H1

	Dependent Variable	
	P (Actual Dyad)	
	(1)	(2)
Intercept	-1.003***	-0.555
Similarity Commercial Skills	0.275** (0.124)	0.282** (0.129)
Similarity Technical Skills	0.310** (0.126)	0.301** (0.127)
Similarity Leadership	0.318** (0.128)	0.345** (0.139)
Same Gender	0.062 (0.087)	0.06 (0.087)
Same Office	0.355*** (0.081)	0.357*** (0.081)
Familiarity Partner		-0.072 (0.113)
Familiarity Manager		-0.049 (0.112)
<i>Controls</i>		
Firm Controls?	Yes	Yes

- The counterfactual analysis provides evidence **supporting** H1
- The coefficients suggest that dyads are **more likely to be formed when the dyad members are similar** in terms of commercial skills, technical skills, and leadership
- Actual dyads more similar than random dyads, even when the firm assigns the dyad (32% of the cases)

# Cluster Analysis H1

- The counterfactual analysis provides a first indication that partners and managers that form a **dyad** are **similar** in terms of their commercial and technical skills and their leadership behaviors, but ...
  - (1) A similar score can indicate they score “high”(good) or “low” (bad) on a specific dimension;
  - (2) Nor does it not show whether a trade-off exists between different dimensions (e.g., highly skilled dyad members with low leadership behaviors).



Use a **k-means clustering algorithm** that considers all three dimensions simultaneously.

# Cluster Analysis – Dyad Formation

z\_Commercial

Dyad Formation using the Cluster Analysis				
	Manager			
		1 – Low	2 – Avg	3 - High
Partner	1 – Low	23	20	4
	2 – Avg	17	58	26
	3 - High	3	26	22

z\_Leadership

- After classifying **each** leader using the cluster analysis, we investigate **whether dyads are formed *within* or *across* clusters.**
- Following H1, we expect that more dyads are formed *within* a cluster rather than across.
- Dyads are significantly more likely to be formed within a cluster (103 of 211), which provides further support for H1.

Figure 1: Visual Representation k-Means Clustering

# Research Design H2

- We use the results from the previous cluster analysis to categorize each dyad, and then link the dyad types to the different outcome measures.

		Manager - Cluster		
		1 - Low	2 - Avg	3 - High
Partner - Cluster	1 - Low	Supplementary Low [Baseline] (n = 23)	Complementary Manager > Partner	
	2 - Avg	Complementary	Supplementary Avg (n = 51)	(n = 43)
	3 - High	Partner > Manager (n = 41)		Supplementary High (n = 20)

$$Team\ Outcomes = \alpha + \beta * Dyad\ Type + \gamma Controls + \varepsilon$$

- Team Outcomes are (1) Psychological Safety, (2) Team Identity, (3) Team Commitment, and (4) Team Performance (meeting firm's goals), all assessed by the team (requiring at least three ratings)

# Results H2

**Table 5:** Regression Results H2

	Dependent Variable			
	Team Dynamics			
	Psychological Safety (1)	Team Commitment (2)	Team Identity (3)	Team Performance (4)
Intercept	3.790*** (0.085)	3.195*** (0.122)	3.688*** (0.085)	3.425*** (0.120)
Complements Partner High Manager Low	0.171*** (0.065)	0.364*** (0.093)	0.239*** (0.065)	0.402*** (0.092)
Complements Partner Low Manager High	0.225** (0.065)	0.414*** (0.092)	0.256*** (0.065)	0.424*** (0.088)
Supplements Average	0.065 (0.063)	0.203** (0.089)	0.109* (0.063)	0.320*** (0.088)
Supplements High	0.309*** (0.076)	0.591*** (0.108)	0.424*** (0.076)	0.602*** (0.107)

- We find support for **supplementary and complementary** rationales:
  - We find that similar partner-manager dyads with strong skills and leadership behavior have the most beneficial impact on the audit team dynamics (psychological safety, team commitment, and team identity) and team performance
  - Results also indicate that a strong manager (partner) can compensate for a weak partner (manager)
  - Compensation effect is most pronounced for strong managers

# Additional Analyses (1)

## Individual Analysis

- The results of the previous analyses suggest that the manager might play a more important role in the functioning of the team than the partner
  - Very little evidence on the role of each leader within the audit team (*very recent: Aobdia, Choudhary, Newberger TAR 2023*)
  - We explore the relative differences by separately regressing the team outcome variables on the skills and leadership behavior of partners and managers
  - Both the partner & manager play an important role for the team
-  Partners are more important for **psychological safety** and **team identity**.  
Manager matters more for **team commitment** and **team performance**.

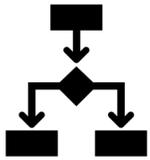
# Additional Analyses (2)

## Client Characteristics:

- Are different dyads assigned to specific clients?
- “Better” dyads for riskier/important clients?
- Four different proxies for client risk
  - Audit firms’ internal risk assessments
  - Listed client (1/0)
  - PIE client (1/0)
  - Audit Fees

 We do not find any difference between which dyads are assigned to which clients  
**But some “below-average” dyads are assigned to high-risk clients.**

# Lessons & Takeaways



- Homophily is evident, and 68% of partners in sample are given the freedom to choose their engagement manager.
- Audit firms need to understand the consequences of that choice.
- Firms should (more) proactively pair engagement partners and managers with complementary skills and leadership behaviors, rather than dyads with similar partners and managers.



- The analysis finds that 11% of dyads are formed among dyad members who both possess lower than average skills and leadership behavior (23 of 211 dyads), even for risky clients, which is problematic.



- Both the partner AND the manager, individually, influence the functioning of the team, but in different ways.

# Some Next Steps

- Differences in perceptions: do partner's and manager's perceptions of the functioning of the team differ from the team's perceptions?
- Implicit assumption: Team functioning is positively associated with audit quality outcomes.
- We plan to test if dyads → audit quality, using audit outcome measures (e.g., financial reporting quality proxies, audit effort (hours), realization rate)

# Questions

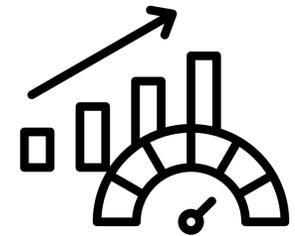
## Study 3: Manager & Partner “Voice Modeling” Behavior: Motivation



**Prerequisite to Voice:**  
Team members need to feel psychologically safe



**Team Member Voice =**  
speaking up voluntarily  
but it is interpersonally  
risky to do so



**Team  
Performance**

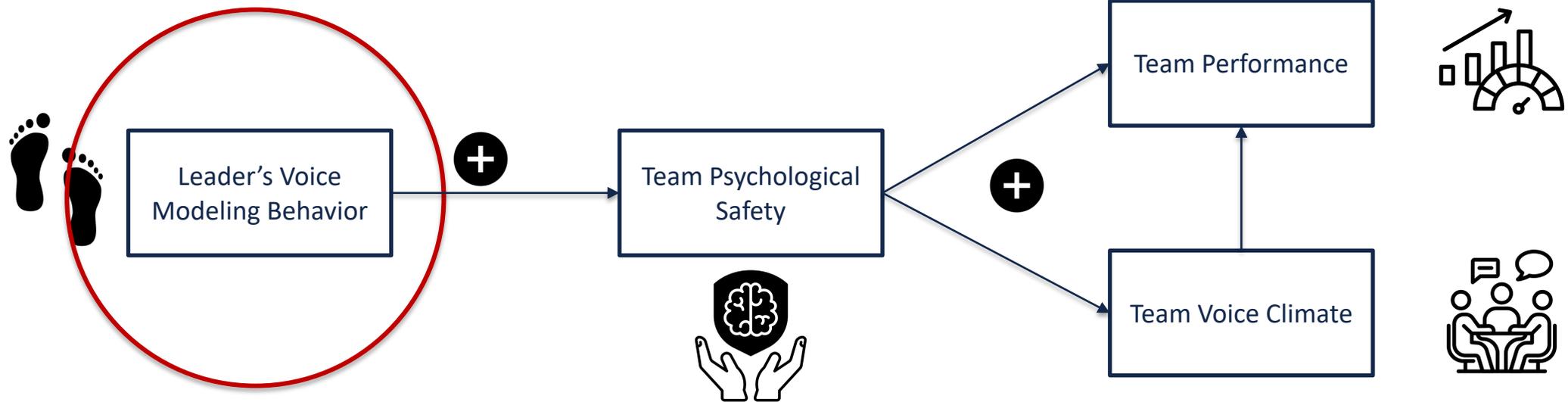


**RQ: What can leaders DO to improve team psychological safety, voice climate, and performance? We study Leader’s Voice Modeling Behaviors**

# Leader Voice Modeling Behavior

- **Voice Modeling Behavior** = portraying the advantages of voice behavior, supporting feedback and expressing constructive ideas, and encouraging members to willingly speak up with suggestions that improve team functioning
- Leading by example
- **Social learning theory** suggests that **individuals copy behavior**
- Ng et al. (2021) shows that after observing other co-workers engaging in voice, individuals are more likely to speak up themselves (“voice contagion”)
- We argue that **leaders can “walk the talk”** by setting a good example of voice behavior in their own actions

# Conceptual Model



# Dual Leader Structure

- Audit engagements are completed by **hierarchically structured audit teams**, and they are led by **two key leadership figures**:

**(1) Engagement partner** – skip-level leader

**(2) Engagement manager** – more day-to-day supervision



**Engagement Partner:** ultimately responsible for the engagement; signs the audit opinion

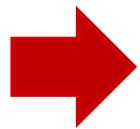


**Engagement Manager:** daily supervision of the engagement team



**Engagement Team:** complete most of the audit procedures

# Conceptual Model



For role-modeling behavior to be effective, **team members need to be able to observe** this behavior. The **manager** is more visible; hence, we expect the **manager's voice modeling behavior to have a larger effect (H1a)**.

## Second RQ

*Under which conditions is voice modeling behavior more (or less) effective?*



# Boundary Conditions - Manager

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## Greater Involvement (H2a)

- The more interaction and face-time, the **more visible the voice-modeling behavior** becomes.
- This strengthens the manager's signal of how serious (s)he is about voice behavior, and **ultimately strengthens psychological safety.**

-

## Mixed Messages (H2b)

- Consistency across behavioral cues (“cognitive fluency”) makes the message easier to understand and follow.
- **Mixed messages** (encouraging speaking up while at the same time engaging in audit-quality threatening behaviors will **lower psychological safety**

# Boundary Condition – Role of the Partner?

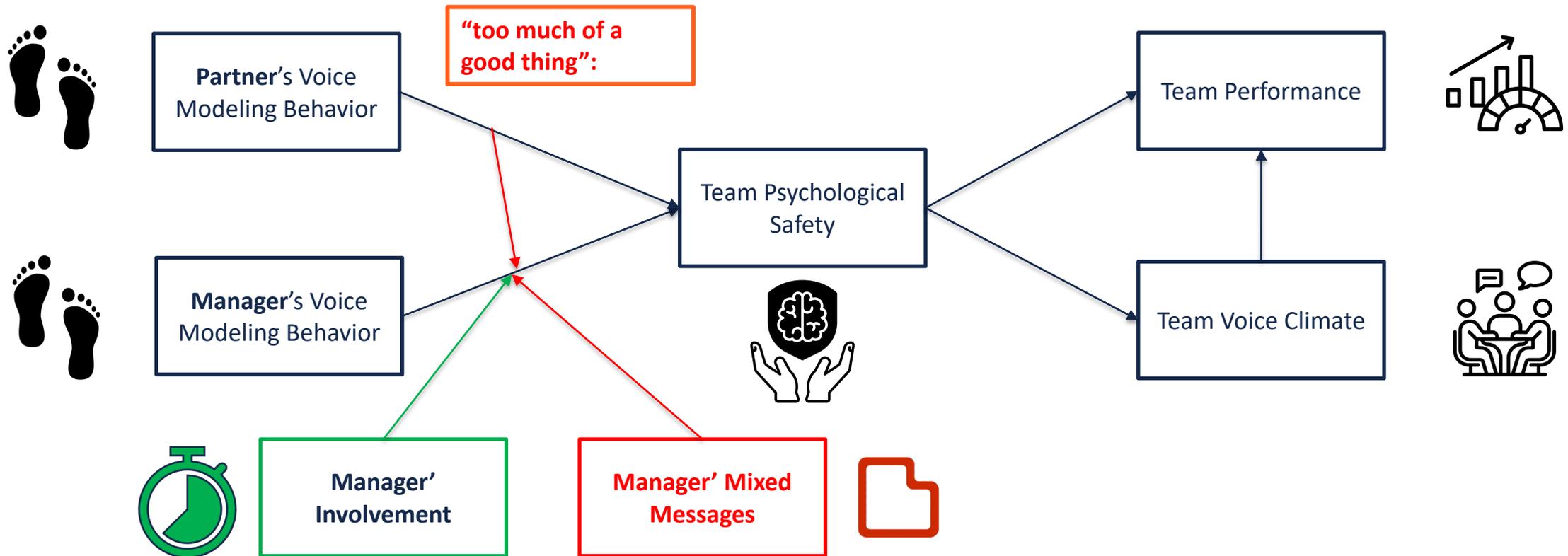
## The Effect of Hierarchy (H3)

- Voluntarily speaking up is interpersonally
- **Hierarchy can stifle voice:** the risk of punishment is perceived to be higher when speaking up

→ **“Too much of a good thing”:** when the partner's behavior, team members may perceive the risk of punishment to be higher and feel less psychologically safe.



# Full Conceptual Model



# Data Collection and Sample

- **Two surveys** from ten participating audit firms (Big 4 + Mid 6 from the Netherlands) + **proprietary audit firm data**



- **“Leader-Survey”**: engagement team members assess the partner and the manager on a particular engagement (2,229 responses for 606 unique leaders for 381 engagements)
- **“Team-Survey”**: engagement team members assess the team climate (1,287 responses for 380 engagements)
- **Final sample: 121 engagement teams**

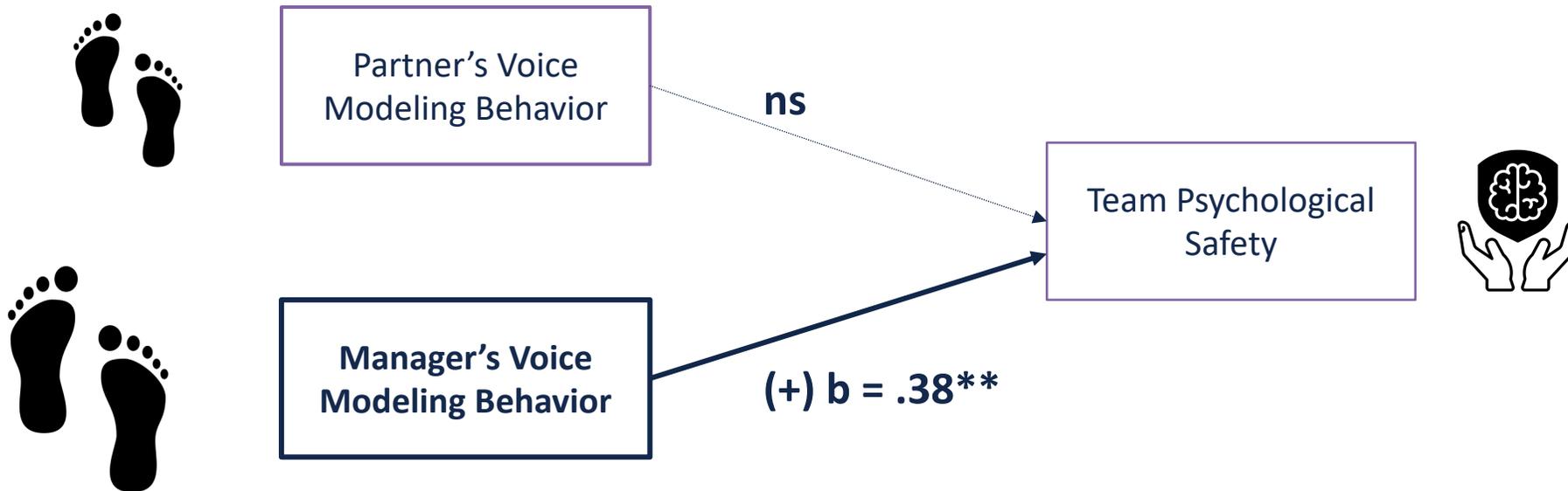
# Measurement

- **Voice modeling behavior:** observer-rated from leader-survey
- **Involvement:** ratio of manager (partner) hours to total hours, based on audit firm data.
- **Mixed Messages:** did team-members observe that the manager engaged in audit-quality threatening behavior (Reduction in Audit Quality, or RAQ)
- **Psychological Safety & Voice Climate:** team member's perception from team-survey (excluding responses from manager and partner!)
- **Team Performance:** survey-based measure, ratings of all team members.

## Important Controls:

- Team Size & Leaders' Genders (audit firm data)
- Transformational Leadership Style & Perceived Status (leader-survey)

# Overview of Results



These findings underscore the **dominant influence of the day-to-day manager** when considering employee voice and perceived safety, over that of the skip-level partner.

# Results – Boundary Conditions



- **Manager Involvement:** the positive association between voice modeling behavior is **strengthened** when the manager spends more time with the team ( $b = .15^*$ )



- **Manager Cutting Corners:** when the team observe the **manager to engage in RAQ-acts**, it **essentially nullifies** the positive influence of voice modeling behavior ( $b = -0.24^{**}$ )



- **Partner's Voice Modeling – Too much of a good thing:** partner and manager exhibiting high voice-role modeling behavior weakens the perception of psychological safety ( $b = -0.24^{**}$ ). **But the partner's voice modeling behavior is effective in *absence* of manager's voice modeling behavior (substitution).**

# Key Take-Aways

➤ **What leaders can do** to help team members feel safe enough to create a climate of voice in a dual-leader

**1** **The manager plays a key role in the team:** voice-modeling behavior from the manager has a **stronger** association than the partner's behavior. Need for leadership training to help managers demonstrate, through their own "voice" leadership behaviors, that there is an environment of psychological safety that enables voice for the audit team

**2**

- **Managers'** influence is accentuated when they are **more involved** and **avoid mixed messaging** (by not engaging in counterproductive RAQ acts).

**3**

- **Partner's voice role modeling** may help in *absence* of the manager, but otherwise has a **stifling effect** (less actual team voice). More manager involvement cannot compensate for this.



***The manager is the "team climate engineer" for the audit team.***



# Questions

# Study 4: It Takes Two to Make a Team Go Right

- **Initiating Structure and Consideration** are leadership behaviors necessary for successful teams
  - [Fleishman, 1973; Stogdill, 1974; Judge et al., 2004; Burke et al. 2006]
- **Initiating Structure** (also called **taskwork**)
  - Describes how a leader assigns group member roles and channels of communication, initiates action, defines how tasks are to be accomplished by the group and the time-line for doing so.
  - This leadership behavior is **task-oriented**, getting the job done.
- **Consideration** (also called **teamwork**)
  - The extent to which a leader exhibits concern for the welfare of the members of the group. This factor is oriented towards interpersonal relationships: building mutual trust and team confidence.
  - This leadership behavior is **people-oriented**.
- **Consideration Measurement.**
  - In the leadership survey, we asked participants to describe the behavior of their leader by responding to six items adapted from the LBDQ consideration scale (Lambert et al., 2012; Rosen et al., 2019; Stogdill et al., 1962). Items assessed included: “This leader is concerned for personal welfare, builds mutual trust and collaboration; provides encouragement and support; and emphasizes collaboration”.
- **Initiating Structure Measurement.**
  - Participants rated leaders’ initiating structure behavior using four items based on Rosen et al. (2019) and Lambert et al. (2012), including: “assigns tasks, roles and responsibilities; coordinates team activities; checks on progress, maintains definitive performance standards”.

# The Audit Team Setting

- Dual leadership in hierarchical setting
  - partners & managers
- Most team research in OB examines single-team leaders in corporate settings
- OB Literature finds that “initiating structure” leadership is the dominant success factor

# Why are Audit Teams Different?

- **Dual Leaders**
  - How is leadership divided between partner & manager?
- **Initiating structure** might be **less** important
  - Audits are a well-defined (structured) process
- **Consideration** might be *more* important
  - Audit work is episodic & only lasts a year
  - Teams come together for a phase, disband, come back for another phase, etc.
  - A new team is formed the next year
  - Consideration leadership fosters sense of “team-ness”

# How is Leadership divided?

- Conventional Wisdom:
  - Partner does Structure, Manager does Consideration
- Our evidence suggests its more complicated

# Sample

Survey data collected from 10 largest Dutch audit firms via two consecutive online surveys, one focused on leadership behaviors and the other on team functioning.

**Leadership.** Audit team members rated the partner's and manager's leadership and the aggregate of observer-ratings were used to depict how leaders typically behave.

**Teams.** We asked participants to self-assess their audit teams, and we used the aggregate of all team members' ratings to measure **team efficacy**.

To reduce common source bias and because the partner is the ultimate leader responsible for evaluating team outcomes, we measured **team performance** and **team viability** through single partner-only-rating from the team survey.

**After matching the required partner-manager dyads, and requiring a minimum of 3 raters, we have a final sample of 93 audit teams, with 882 team raters assessing the leadership style of the partners and managers, 448 team member ratings of team efficacy, and 93 partner-only ratings of team performance and team viability.**

# Audit Team Outcome Variables

## *Team Efficacy –meditates the effect of leadership on team “Viability” and “Performance”*

In the team survey, participants rated the degree to which team members share a sense of confidence in their team’s capacity to mobilize task-specific team competence using five items adapted following Riggs et al. (1994) and used by Chen et al. (2005), and Hoyt et al. (2003). Example items included: The team “is totally competent and capable of performing all of our audit tasks” and “is confident about its ability to complete the audit successfully”.

**Team Viability.** In the team survey, the partner rated each team’s capability to maintain team viability over time. We used the 3-item team viability scale employed by Barrick et al., (1998), and sample items included: “This team should not continue to function as a team” (reverse-scored), and “This team is capable of working together again in the future”.

**Team Performance.** In the team survey, the partner rated the team’s overall performance using Barrick et al. (1998) 5-item team performance scale, e.g., “This team completes its tasks on time” and “This team makes sure that audit services meet or exceed service standards”.

# Results

- Best Outcome
  - When the partner is high on **both *Structure* and *Consideration***
  - “Super Partners”
- Second Best Outcome
  - When both are high on ***Consideration***
  - The “Power of Consideration”
- Structure is significant, but less important than Consideration

# Lessons

- Consideration really matters
  - Making the team feel like a team
- Partners need to be fully engaged with the team
  - Not an invisible persona/figure-head

# Questions

## Study 5 (Very Preliminary)

### Are Partners and Managers Flexible?

- Key question in OB literature
  - Is leadership style fixed across engagements, or can managers adapt to different situations?
- Very preliminary findings
  - Leadership behaviors appear to be flexible (not rigid)
  - Next step: how does it affect team performance?

# Summary

- **P+M** personality traits partially explain why some teams perform better
- **Dyads** – Partners choose (similar) managers, and managers choose their preferred seniors
  - If partner-manager dyads have similar strong skills, their teams perform well;
  - Otherwise, best to complement stronger/weaker manager & partner skills
  - Partners → psychological safety & team identity
  - Manager → team commitment & team performance
- **Voice Modeling Behavior** supports psychological safety/team climate
  - Most effectively done by **Managers** (but avoid RAQ Acts)
  - Partners can substitute for weak managers
- Both **Partner** & **Manager** need to show team “consideration” behaviors
  - Especially **Partners** (super partner)
- **P+M** leadership skills needs to be flexible & adaptable, to meet the team’s needs

# Actionable Items (Lessons)

- Hiring & Training
  - Firms need diverse personalities (even Dark Triad?)
    - But this requires nuanced & focused training
    - Constraining “Agreeableness” and “Dark Triad”
  - Is “Extraversion” over-rewarded? Narrows personality types
- Better Team Climate Training (Partners & Managers)
  - Consideration Behaviors – Caring about the Team
  - Creating Genuine Sense of Psychological Safety
  - Exhibiting Voice Modeling Behaviors
- Partners Need to Engage with Team

# Thank You



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