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FAR Research project

The effects of multiple team memberships on individual auditors' performance

By Reggy Hooghiemstra, Floor Rink and Dennis Veltrop

1 Why is this research important and how does it contribute to practice?

Auditing involves a process in which an engagement team, consisting of assistants, seniors, managers, and one or more audit partners, applies a series of sequentially performed procedures and decisions with the aim to collect sufficient competent evidence regarding the client's financial reporting process and financial statement assertions (e.g., Trotman, Bauer & Humphreys, 2015; Knechel, Vanstraelen & Zerni, 2015; Francis, 2011; Bik, 2010; Pierce & Sweeney, 2005). Teamwork, or how individuals within engagement teams carry out their work, is therefore of crucial importance for audit quality.

Within audit firms it is common practice that assistants, seniors, managers, and audit partners are members of *more than one* engagement team at the same time and thus typically hold *multiple team memberships* (hereafter referred to as MTMs, e.g., Lopéz & Peters, 2012; Agoglia, Brazel, Hatfield & Jackson, 2010; Bik, 2010; Viator, 2001).

The idea that auditors hold MTMs means that they are concurrently members of several engagement teams in a given period of time (O'Leary, Mortensen & Wooley, 2011). Even in a single workday, auditors may be working on a number of different tasks and may be interacting with a multitude of members of different teams (*cf.* Bertolotti, Matterelli, Vignolli & Macri, 2015). This has important, to date unacknowledged, implications for understanding what drives an individual auditor's job outcomes, the overall effectiveness of the engagement teams involved, and ultimately, audit quality. Specifically, from the literature on MTMs we know that this way of organizing work comes with certain costs as well as benefits to the individual, the

team and ultimately the organization. For instance, while MTMs may create opportunities in terms of increased learning possibilities and better information exchange, it also may come with increased switching costs and higher workload.

The main contribution to practice is that we discuss implications of MTMs for auditing practice to get a better idea of why some auditors are likely to struggle, while others thrive in such a working environment. That is, we will reflect on how and under what conditions working in MTMs affect auditors' job performance.

2 Introduction of the research question

While insightful, research in the auditing domain seems to be based on the idea that auditors are part of one team in which all members work on a single engagement and share responsibility for the attainment of a high-quality audit (e.g., Bell, Causholli & Knechel, 2015). However, it is important to realize that such a team model does not align with reality of how audit work is organized.

As indicated *multiple team memberships* is the predominant way in which work within auditing firms are organized. The omnipresence of MTMs in audit firms and a current lack of understanding of how working in multiple teams simultaneously affects the performance of auditors renders it crucial to reflect on the effects of working in MTMs within audit firms. As this paper discusses some of the most pressing issues related to working in MTMs in audit firms, the outcomes contribute to existing knowledge on key drivers of audit quality (e.g., Christensen, Glover, Omer & Shelley, 2015; Bell et al., 2015; De Fond & Zhang, 2014; Knechel, Krishnan, Pevzner, Shefchik & Velury, 2013; Fran-

cis, 2011, 2004). Also from a practical point of view, having insights into the effects of MTMs is crucial as both audit firms and regulators indicate that audit firms' employees have a crucial role in securing high-quality audits. For instance, the NBA-report *In the public interest* (2014, p. 35) notes that "[t]he quality of the people within an accountancy organization is one of the, if not the most, important defining factors for the quality of the organization and the quality of the audits carried out". At the same time recent transparency reports of Dutch audit firms indicate that recruiting and retaining qualified staff poses a real challenge to audit firms (e.g., KPMG, 2016). One key reason for this is that individual auditors often suffer from a high work load and tend to experience lack of work-life balance.

Therefore, the overall aim of this paper is to reflect on *how* and *under what circumstances* working in MTMs are likely to affect individual auditors' job performance.

3 What does the academic literature tell us?

3.1 Auditors as a key audit quality dimension

Following the seminal work of DeAngelo (1981), audit quality has been defined as the joint likelihood that an auditor will discover and report material misstatements. Both auditor's competence and effort levels determine the likelihood that s/he discovers a material error (e.g., Bell et al., 2015), while the likelihood that a discovered error will be reported by the auditor is affected by the auditor's independence vis-à-vis the client (e.g., De Fond & Zhang, 2014). Various academic reviews of the literature on audit quality (e.g., Trotman et al., 2015; De Fond & Zhang, 2014; Knechel et al., 2013; Francis, 2011, 2004) suggest that employees working at audit firms are a key determinant of audit quality. Evidence from interviews with and surveys among audit partners and staff (Christensen et al., 2015; Persellin, Schmidt & Wilkins, 2015; Westermann, Bedard & Earley, 2015) also suggests that engagement team members perform a pivotal role in securing high-quality audits. For instance, one of the interviewees in the Christensen et al. (2015, p. 17) paper clearly emphasizes employees' pivotal role by stating that "audit quality is driven by the individuals". In practice, a large number of professional organizations and regulatory bodies (e.g., NBA, 2015, 2014; CAQ, 2014; IAASB, 2014; PCAOB, 2014) acknowledge the key role of audit firms' employees in securing high-quality audits. The IAASB (2014), for example, states that "[a] high quality audit is likely to have been achieved by an engagement team that [...] was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work". In a similar vein, the PCAOB listed "workload pressures" as a potential root cause for the deficiencies they revealed in the re-

cent past.

At the same time, however, it is alarming that staffing issues are on top of the list of concerns for audit firms of all sizes because both finding *and* retaining qualified staff appears to be problematic (Drew, 2015). This finding reflects significant changes in the work environment of the audit profession, and supports other research showing not only that auditors at all levels perceive their workload to be high (Persellin et al., 2015), but also that they have become more eager to maintain a better work-life balance (e.g., Westermann et al., 2015; Johnson, Lowe & Reckers, 2012).

3.2 Multiple team memberships in audit firms

In an attempt to use scarce human resources as efficiently as possible, audit firms rely on dynamic teams where memberships are frequently shared, shifted and dissolved (López & Peters, 2012; Bik, 2010; Pierce & Sweeney, 2005). In practice this means that auditors hold multiple team memberships, meaning that they are simultaneously members of several engagement teams in a given period of time (O'Leary et al., 2011). Following O'Leary et al. (2011) MTMs can be decomposed into two dimensions: the number of simultaneous team memberships and the variety between team memberships. Both dimensions are relevant in the auditing context. The number of simultaneous team memberships represents the number of distinct engagement teams that an individual belongs to at a given time point; for instance in a certain month during the busy season an individual senior may be working on 6 different engagements simultaneously. The variety between team memberships reflects the teams' similarity in terms of tasks, roles and team characteristics (O'Leary et al., 2011). For instance, while a senior may be the acting manager on one engagement (involving a small(er) firm), s/he may actually mostly be conducting field work on another engagement (involving a large(r) firm).

4 Key message - The countervailing perspectives on the effects of MTMs

Within the MTM-literature two perspectives have emerged to account for the relationships between MTMs and individual performance, namely: the *demand perspective* and the *resource perspective*.

The *demand perspective* emphasizes the negative aspects of belonging to multiple teams simultaneously; aspects that are likely to lead to strain and exhaustion. Scholars suggest that there are two reasons why MTMs pose demands on employees. First, they have to deal with increased *task-related demands*, including time-schedule conflicts (Zika-Viktorsson, Sundstrom & Engwall, 2006), diverging work demands, and switching costs (e.g., Van de Brake, Walter, Rink, Essens & Van der Vegt, 2015; O'Leary et al., 2011; 2012). For example, employees that

work on multiple teams simultaneously have to relocate their work activities more often, have to spend more time on catching up with work done in their absence, and need to shift more regularly between tasks compared to employees that predominantly work in one team only (Pluut, Flestea & Curşeu, 2014; O'Leary et al., 2011). Obviously, some of these issues become even more pressing when the variety in the teams is higher. For instance, higher variety not only means that a greater amount of information must be managed (O'Leary et al., 2011), it also means that the individual employee needs more time and effort to adjust to the different roles and "spheres" in the teams. Also at the team level, the presence of MTMs can also hamper performance as most team members need to coordinate their efforts with the other teams to which they belong (O'Leary et al., 2011) in an attempt to reduce the amount of time that team members do not synchronously work on the same team (i.e., "temporal misalignment") (O'Leary et al., 2012).

Second, working in an MTM-environment can come with increased *social demands* for individual auditors. By nature, engagement teams are episodic implying that memberships are frequently shifted and dissolved (e.g., Bik, 2010). In this environment it is more difficult to develop socially-integrated teams in which individual members feel "psychologically linked to others in a group" (O'Reilly, Caldwell & Barnett, 1989, p. 22). Scholars have suggested that it is relatively complicated to build relationship stability and continuity in an environment in which employees mostly work in multiple teams simultaneously (Van der Vegt, Bunderson & Kuipers, 2010) and, hence, see each other relatively infrequently. This also means that individual members of an engagement team have to spend more time and effort to socially familiarize themselves with other team members. A lack of stability and continuity in interpersonal relationships makes it more difficult to develop trust among team members that would help to minimize intragroup conflict and fosters team-oriented efforts (Mortenson et al., 2007; Van der Vegt et al., 2010; O'Connor, Gruenfeld & McGrath, 1993). Arguably, teams that are less socially-integrated are more likely to perform their work as a mere collection of individuals rather than as a coherent group with common interests (cf. Van der Vegt et al., 2010). This means that more efforts are needed to coordinate individual work, information, and knowledge to effectively accomplish the team's objectives.

Obviously, the abovementioned task-related and social demands associated with MTMs can pose a threat to an auditor's job performance that may jeopardize audit quality (e.g., Persellin et al., 2015; López & Peters, 2014; Agoglia et al., 2010; Jelinek & Jelinek, 2008; Sweeney & Summers, 2002). Supportive evidence for this notion stems from a large-scale survey study by

Persellin et al. (2015). Although not focusing on MTM per se, this study does show that auditors' perceptions of their levels of workload are relatively high and strongly related to perceived audit quality. That is, an overwhelming majority (87 percent) of the respondents indicated that their high workload endangered audit quality. Moreover, the majority of respondents indicated that "deadlines and staff shortage are the biggest drivers of workload pressures" and, hence, lower audit quality because these pressures lead to "(1) compromised audit procedures (including taking shortcuts); (2) impaired audit judgment (including reduced professional skepticism); and (3) difficulties in retaining staff with appropriate knowledge and skills" (Persellin et al., 2015, p. 4).

Importantly however, the *resource perspective* highlights that MTMs can also bring important benefits to individual job performance. Scholars highlighting the positive side of MTMs stress that belonging to multiple teams simultaneously could potentially trigger engagement and learning opportunities. Working in different teams, and especially when team variety is high, help improving learning as an individual belonging to those teams is likely to be exposed to different working methods, ideas, insights, information, etc. Moreover, as working in MTMs usually leads individuals to make more careful choices about how to spend their time it may motivate employees to adopt more efficient ways of organizing their work (Van de Brake et al., 2015; Chan, 2014; O'Leary et al., 2011). Lastly, concurrently belonging to multiple teams makes unique information and new network relations accessible to individuals that would not be available otherwise (Lin, 1999). This information and network advantage facilitate actions that may increase individual and team performance (e.g., O'Leary et al., 2011; 2012).

5 Practical Implications

So far we have addressed two contrasting perspectives on MTMs. The basic message from this review of the literature is that working in multiple teams concurrently can be a double-edged sword. Therefore, in the remainder of this paper, we will reflect on the implications of MTMs for auditing practice to get a better idea of why some auditors are likely to struggle, while others thrive in such a working environment. That is, we will reflect on how and under what conditions working in MTMs affect auditors' job performance.

5.1 Inverted U-shape relationship

It is likely that there is an inverted U-shape relationship between on the one hand job performance and, on the other, the number of simultaneous team memberships as well as the variety between team memberships. This means it is likely that job performance initially improves as the number of simultaneous team memberships

increases or when team variety becomes larger because individual employees are likely to adopt more efficient working methods and are able to learn from the teams s/he is member of. However, it also means that, inevitably, there is a point at which the costs outweigh the benefits and, hence, after which job performance deteriorates. In this respect, O'Leary et al. (2011, p. 467) note "[a]s individuals take on larger numbers of teams, each additional team exacerbates the division of people's attention and slows their reengagement with any one team's work". In a similar vein, they note that after some point higher team variety is associated with greater job scope and complexity which likely leads to high levels of strain which will reduce job performance.

In an auditing context this may mean that when an individual auditor is member of a certain number of engagement teams on which s/he works simultaneously, adding one additional engagement to his/her portfolio and/or increasing the variety of teams would be detrimental to his/her performance. Specifically, it is likely that, in order to cope with the increased work load and due to an increased feeling that the job cannot be done in the allocated time (Persellin et al. 2015), the individual auditor will more likely take shortcuts while performing audit procedures (Sundgren & Svanström, 2014) and that his/her audit judgment may be impaired. Obviously, such practices increase the possibility that existing problems will be overlooked (Persellin et al., 2015; Caramanis & Lennox, 2008), which ultimately harm audit quality.

Also learning effects may diminish when the number of simultaneous team memberships increases beyond a certain point or when team variety becomes too great. For instance, when variety is high the diversity of inputs and information from team members becomes so varied that it becomes "unlikely to trigger any additional learning" (O'Leary et al., 2011, p. 470). Similarly, being on too many teams simultaneously leads to increased time pressure and doesn't allow individuals to reflect on the experiences gained on the different teams and to learn from those experiences. For instance, this may imply that a senior doesn't learn on the job and benefit from the experiences and instructions from the more senior people on the engagement. Hence, this would for instance imply that the senior wouldn't be in a position to acquire skills beyond the general training he/she received. This is alarming as auditing essentially involves on-the-job learning, or "a professional "apprenticeship", in which more experienced colleagues provide guidance on how a less experienced employee should perform a task. Through this process, the apprentice is expected to learn how to translate knowledge of his/her "craft" into practice" (Westermann et al., 2015, p. 864).

Taken together, this means that there is some optimal level of the number of simultaneous team memberships and variety between team memberships at which auditors likely thrive in an MTM-environment. It also means that to allow learning it may be important to either incorporate brief breaks (for instance of half a day) between engagements and/or to minimize the extent to which deadlines on different audit engagements culminate at one date.

While the above-mentioned saturation or inflexion point will ultimately pose limits on the number of simultaneous team memberships and/or variety between team memberships, there are some indications in the literature that individual-level characteristics in general and organizational tenure helps to alleviate the negative effects of MTMs.

5.2 The effects of organizational tenure

In terms of individual-level characteristics it seems that how individuals go about achieving their goals is likely to help explaining how individual auditors cope with MTMs in general and the task-related demands in particular. One crucial characteristic is the auditor's organizational tenure. *Organizational tenure* reflects an auditor's total time employed at an audit firm (cf. Conway & Coyle-Shapiro, 2012). In line with the literature about organizational socialization (e.g., Ashforth & Saks, 1996; Chatman, 1991), higher levels of tenure captures (a) greater task familiarity, (b) improved understanding of the firm's work processes, procedures, and regulations, and (c) better awareness of the firm's implicit norms and values (Van de Brake et al., 2015; Gregersen, 1993). These work experiences may also be relevant when coping with the *task-related* demands of MTMs, because they strengthen an auditor's ability to work effectively on multiple and varied tasks within the audit firm.

Auditors with lower organizational tenure need to spend substantial time and energy on learning the task requirements and implicit norms of each of their engagement teams (Ashforth & Saks, 1996). Although this learning process is an essential element of working at an audit firm (Westermann et al., 2015), it may also cause these auditors to experience switching costs and high work pressure because they are not yet familiar with the organizations' rules, regulations, and procedures for task accomplishment (e.g., O'Leary et al., 2011). Hence, in the context of high MTM, it can be expected that auditors with low organizational tenure may lack the experience vital for adapting to multiple simultaneous team activities (Van de Brake et al., 2015; O'Leary et al., 2011) and will, therefore, be vulnerable to the associated task-related demands. Auditors with higher organizational tenure, on the

other hand, are likely to be familiar with the tasks requirements set within the different engagement teams and to have a thorough understanding of the norms that govern interaction within these teams (Van der Brake et al., 2015). That is, it can be expected that auditors with higher organizational tenure will find it easier to predict how a wide variety of teams will respond to their task contributions and will adapt their work behaviors more easily if needed (Weick, Sutcliffe & Obstfeld, 2005). Consequently, these auditors may be less susceptible to the negative (demand) consequences of MTM. Accordingly, it is likely that the effects of MTM's task-related demands on auditor's job performance are stronger for auditors with lower organizational tenure than for auditors with higher organizational tenure.

In practical terms this could mean that the phase in an auditor's career is an important factor that explains how MTMs affects auditor effectiveness. This may solve the puzzle that while auditors in the early phases of their career probably learn and develop most from being on many different engagement teams, they also struggle the most with having to switch between those teams. Hence, this also would suggest that audit firms need to take organizational tenure into account when deciding on the number and/or variety of team memberships. For instance, audit firms could consider measures specifically attuned to early career auditors in terms of:

- a. the training auditors in their early phases receive (e.g., to include a session on multi-tasking/MTMs as part of the introduction program);
- b. staffing/planning decisions (e.g., optimal number of teams an auditor can be part of simultaneously depending on her career phase, how costs or efforts of

switching between teams can be minimized, and how such switching costs can be incorporated when evaluating staff).

- c. to allow for real learning on the job, it may be important to incorporate some reflection time between engagements especially for the less-tenured staff members.

6 Conclusions

Working in multiple engagement teams simultaneously is at the heart of how auditing firms organize their employee activities. As such, individual auditors are members of more than one engagement team at the same time (i.e., occupy multiple team memberships, or MTMs). Yet when attempting to improve the performance and work conditions of individual auditors, to date audit firms seem to rely primarily on traditional measures (e.g., individual learning trajectories and personal goal setting) that do not take this overarching, multiple team membership perspective into account. Adopting the MTM-lens is crucial in an auditing context as it specifies the unique job demands that individual auditors experience when shifting between multiple engagements. In this paper we have provided some initial thoughts that may provide ideas about how to (re)organize individual work within audit firms in order to allow all employees to thrive within such an environment. ■

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Dialogue

By Julia Wijnmaalen *“Workload pressure is a root cause of drops in audit quality.”*
(Reggy Hooghiemstra)

The discussion starts with the following question: “How many different engagements are you currently working on?” A conference attendee answers: “I see associates who have 30-40 different clients”. This way of working in auditing firms is the topic of Hooghiemstra et al.’s research: What do auditors experience when they work in all these different teams and what is the effect on audit quality? “In the end, regarding the audit, it boils down to good people. Quality depends on good people and people need time to learn, also if they are talented”. This statement triggers another conference attendee: “When you say ‘people’s qualities’, what do you mean? Knowledge of course, but also certain personal characteristics? Such as courage and professional skepticisms?” According to Hooghiemstra, as well as a basic level of knowledge and interest in auditing, personality plays an important role. For instance, are you a person who takes or avoids risks?

“Workload pressure is a root cause of drops in audit quality”. In this respect Hooghiemstra notes that workload is not only about the number of tasks, but also about the different kind of tasks. If you are working on many different types of engagements, the workload is perceived to be much higher as people have to switch simultaneously between different types of jobs and knowledge. One of the attendees points out that she believes personality also determines how workload pressure is handled. Hooghiemstra agrees and adds that the way you handle workload pressure is also linked to tenure. It is probably easier to switch between jobs if you have more experience. Another attendee does not think that being a member of multiple teams has an equal impact on the performance during each individual audit engagement. “If I am allocated more time for an engagement, I am able to work at a steadier pace than on some other engagement where I have less time”. Hooghiemstra agrees that this is an important feature, but he also points out that “in the end, it does not really matter from the regulator’s or audit organization’s perspective, because they look at the entire level of quality”.

The number of questions raised by the audience signposts the relevance of the research topic. Many attendees propose to include variables that they believe influence the relationship between audit quality and multiple team membership. For example, one attendee embellishes on the difference between planned and unplanned multi-team membership. “For example, it often happens that the client is late with something and that the individual has already started on another engagement. This might then lead to even more stress”. Another attendee adds that the composition of the team matters. “I can imagine that a team be-

comes more effective if the team members have worked with each other before or if they have been working with each other for a longer period of time. This might mitigate some of the negative effects”. One of the conference attendees responds by sharing the results of new research on this particular issue conducted in Australia on the effect of the length of time people have been working together on the level of audit quality. The results indicate that familiarity is a good thing, as it leads to more efficiency and higher audit quality. Another question is about the dependent variable: What is audit quality? A conference attendee notes that the team might think that they did well and worked nicely together, but from a compliance perspective they might not have done a good job, and/or the firm might not be happy with the hours the team spent. “So from whose perspective do you measure audit quality? And how do you get that data?” Hooghiemstra replies that researchers indeed struggle with this point, as they have to work with the data available within the firms. He also explains that the research focus is on the team climate and not whether team members are happy. An example of a team climate element is whether it is appreciated if an assistant speaks-up or not.

A conference attendee notes that a distinction needs to be made between short and long term effects. Yes, in the short-term, it is good to work in a team with people that you know and worked with before. However, in the long-term, you potentially learn and improve more if you work with multiple teams and projects. “Even after 20 years I prefer to only focus on one project and yet it is better for me to focus on more than one project because it makes me into a better auditor, as I gain knowledge from different fields and industries”. Hooghiemstra agrees that there are two sides to the story when it comes to multiple team memberships. On the one hand, one has the resource effect: multiple team memberships make employees work more efficiently and provide the opportunities to tap into other people’s knowledge and the knowledge is spread among the teams. On the other hand, one sees a demand effect: the workload is high, employees need to familiarize themselves with different teams, and so on. “We expect an inverted U-shape relationship between number and variety of teams an employee is a member of, and performance. Initially, performance goes up; however, at some point, this effect will decrease, and the performance will go down negatively thereby affecting audit quality”. ■

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