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# Current Issues in Auditing

## PRACTITIONER SUMMARY Fostering Intrinsic Motivational Orientation: A Cost-Effective Method for Encouraging Audit Staff to Speak Up

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| Order of Authors:  | Robert Mocadlo |
|                    | Jay Rich       |
|                    | Madeline Trimble |
|                    | Yuepin (Daniel) Zhou |

### Abstract:

This article summarizes and outlines practical implications from the findings of “It Goes Without Saying: The Effects of Intrinsic Motivational Orientation, Leadership Emphasis of Intrinsic Goals, and Audit Issue Ambiguity on Speaking Up” (Kadous, Proell, Rich, and Zhou 2019). Through a series of experiments and surveys, the initial paper tests the effect that leadership focus on intrinsic motivation of auditors can have on their willingness to “speak up” with audit issues. Furthermore, they introduce the effects that ambiguity and source of motivation have on their initial findings. We expand this original work by summarizing the empirical findings and elaborating on the practical implications for auditors, managers, academics, and regulators. Applying these findings in practice could be a cost effective and efficient way to operationalize PCAOB AS 1201 and improve audit quality.
PRACTITIONER SUMMARY

Fostering Intrinsic Motivational Orientation: A Cost-Effective Method for Encouraging Audit Staff to Speak Up

Robert Mocadlo
University of North Dakota
robert.mocadlo@UND.edu

Jay Rich
Illinois State University
jsrich@ilstu.edu

Madeline Trimble
Illinois State University
mktrmb@ilstu.edu

Yuepin (Daniel) Zhou
University of Illinois Urbana-Champaign
zhou121@illinois.edu
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SUMMARY: This article summarizes and outlines practical implications from the findings of “It Goes Without Saying: The Effects of Intrinsic Motivational Orientation, Leadership Emphasis of Intrinsic Goals, and Audit Issue Ambiguity on Speaking Up” (Kadous, Proell, Rich, and Zhou 2019). Through a series of experiments and surveys, the initial paper tests the effect that leadership focus on intrinsic motivation of auditors can have on their willingness to “speak up” with audit issues. Furthermore, they introduce the effects that ambiguity and source of motivation have on their initial findings. We expand this original work by summarizing the empirical findings and elaborating on the practical implications for auditors, managers, academics, and regulators. Applying these findings in practice could be a cost effective and efficient way to operationalize PCAOB AS 1201 and improve audit quality.

Keywords: Audit teams, information sharing, leadership, employee voice, experiment, survey
I. INTRODUCTION

On any given audit, auditors with only a few years of experience (or less) gather and document most of the audit evidence (Bennett and Hatfield 2013). While professional skepticism is required as part of due professional care\(^1\), it is critical that the audit staff communicate any issues they discover during the audit to their supervisors, so that the audit team can respond to these issues appropriately (Solomon 1987). Furthermore, the PCAOB (2010, 1201-5b) prescribes that, “…the engagement partner and, as applicable, other engagement team members performing supervisory activities, should direct engagement team members to bring significant accounting and auditing issues arising during the audit to the attention of the engagement partner or other engagement team members performing supervisory activities so they can evaluate those issues and determine that appropriate actions are taken in accordance with PCAOB standards.” In short, audit research and professional standards conclude that finding ways to encourage auditors to communicate accounting and auditing issues (“speaking up”) is crucial for producing high-quality audits and complying with PCAOB AS 1201.

Not speaking up with audit issues can have wide reaching consequences. Audit research indicates that if staff auditors do not speak up to their superiors, the issues are more likely to go undiscovered (Rich, Solomon, and Trotman 1997; Clor-Proell, Kadous, and Proell 2019). The lack of discovery of errors or fraud can lead to lower audit quality and poor decisions made from audit outcomes (Solomon 1987). Furthermore, not speaking up can potentially lead to costly inefficiencies and high time pressure later in the audit process when the issue is finally revealed. Audit staff in environments where they feel uncomfortable raising concerns have lower job satisfaction and results in higher employee turnover (Burris, Detert, and Romney 2013). Finally,

\(^1\) Audit Standard 1015.07 defines professional skepticism as “an attitude that includes a questioning mind and a critical assessment of audit evidence” (PCAOB 2002).
from an enforcement perspective, the PCAOB cites lack of appropriate communication among manager and staff as evidence of poor audit quality and outcomes during their investigations (see PCAOB 2012a and 2012b as examples).

Despite the potential harm to the process, staff auditors are often reluctant to speak up because they fear that increased communication of potential audit issues will result in a loss of efficiency, which might cause their superiors to react unfavorably (Agoglia, Hatfield, and Lambert 2015; Nelson, Proell, and Randel 2016; Nelson and Proell 2018). Additionally, staff auditors’ relative lack of knowledge and experience may cause them to doubt the significance of their findings. This can exacerbate their reluctance to speak up, especially when faced with an uncertain audit situation (Brazel, Jackson, Schaefer, and Stewart 2016).

A recently published study “It Goes Without Saying: The Effects of Intrinsic Motivational Orientation, Leadership Emphasis of Intrinsic Goals, and Audit Issue Ambiguity on Speaking Up” by Kadous, Proell, Rich, and Zhou (2019), hereafter referred to as KPRZ, investigates a simple, cost-effective strategy that audit leaders can use to increase staff auditors’ willingness to speak up with potentially significant accounting and auditing issues and explore under what conditions this strategy is most effective. The study finds that fostering an intrinsic motivational orientation (e.g., encouraging auditors to ask questions to improve their own knowledge base and professional development) in audit team members can be an effective and efficient way to increase the willingness of auditors to speak up. Additionally, they find that this improvement in auditors’ willingness to raise audit issues occurs in both ambiguous and unambiguous settings,

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2 Intrinsic motivational orientation refers to the extent to which an individual is driven by intrinsic motivation when performing an activity. Individuals are said to be intrinsically motivated when they are motivated by the inherent rewards and satisfaction of an activity (e.g., overcoming challenges, achieving competence, and satisfying curiosity) as opposed to the extrinsic incentives provided by an activity (e.g., financial rewards and penalties, evaluation, and recognition).
lending strength to the importance of nurturing intrinsic motivational orientation to improve compliance with PCAOB AS 1201 and enhance audit quality.

In this paper, we summarize and discuss the research questions, methodology, and results of KPRZ. We contribute beyond the original work by highlighting further implications and providing practical suggestions on how to implement these findings in practice. Additionally, we address the importance of this work to audit standard setters and highlight future research opportunities for the academic community.

II. THE ROLE OF INTRINSIC MOTIVATIONAL ORIENTATION

KPRZ’s first study investigates how staff auditors’ trait-levels of intrinsic and extrinsic motivational orientation affect their likelihood of voicing accounting and auditing issues.³

**RQ1:** How does intrinsic and extrinsic motivational orientation affect auditors’ willingness to speak up?

Study 1 asks 93 students with public accounting audit internship experience about a hypothetical situation where staff auditors learn about “important information” from their client. They are told that if the information is true, they would need to add additional procedures that would “increase audit cost by increasing planned audit hours, but also could potentially increase audit quality.” The participants are asked how willing they thought the staff auditor would be to suggest that additional procedures would be needed.⁴ The study manipulates the staff auditor’s trait-level motivational orientation by describing the staff auditor as either “motivated through personal and professional growth by focusing on learning and improving” (intrinsic motivation),

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³ One’s motivational orientation is influenced by both personality driven factors (i.e., “traits”) and environmental factors (Amabile, Hill, Hennessey, and Tighe 1994).
⁴ Participants were asked what a described staff auditor would do rather than what the participants themselves would do because these types of responses are more useful when questions are sensitive, have ethical overtones, or are subject to social desirability bias in responding (Gronewold, Gold, and Salterio 2013, p. 197).
“motivated through career success by focusing on rewards and career advancement” (extrinsic motivation), or without description of the auditor’s motivation (control). Results of the study indicate that when staff auditors are intrinsically motivated, they are significantly more willing to suggest additional procedures than when extrinsically motivated or when there is no mention of motivation at all. This provides experimental evidence that intrinsically oriented staff auditors are more willing to speak up about potentially important audit issues than are other staff auditors.

Study 2 examines how staff auditors’ trait-level motivational orientation affects their actual workplace behavior. Sixty-five audit staff and seniors filled out the Work Preference Inventory, a 30-item assessment to determine the extent to which individuals exhibit intrinsic and extrinsic motivational orientations (Amabile et al. 1994). The auditor participants then answered several questions about how much they speak up during audits. The results of the survey (see Table 1) indicate that speaking up behavior during audits is positively associated with trait-level intrinsic orientation but is uncorrelated with trait-level extrinsic orientation. Study 2 reinforces the evidence from Study 1 by demonstrating that the effect of intrinsic motivational orientation on speaking up is applicable to real-world work behavior.

III. THE ROLE OF AUDIT ENVIRONMENT: LEADERSHIP FOCUS & AMBIGUITY

Next, the study explores how the environment of the audit can affect the initial results. KPRZ start by investigating how audit leadership affects audit quality according to PCAOB AS 1201. As stated in the standard, communication is key for a successful audit and it is the audit leaders’ responsibility to foster communication within the audit team to uncover potential issues. Given the initial results that intrinsic motivation traits in auditors increase their willingness to speak up,
KPRZ test whether audit leaders can capitalize on this knowledge by encouraging auditors to focus on their intrinsic motivation at work.

**RQ2: Are auditors more willing to speak up when their leaders focus on intrinsic or extrinsic goals?**

KPRZ also explore how the ambiguity of the audit can affect auditors’ willingness to speak up. Ambiguity arises from insufficient information or a degree of conflict in available information and is influenced by many factors, including the amount, type, and reliability of available information (e.g., Ellsberg 1961; Einhorn and Hogarth 1985). Ambiguity is not only a common feature in the audit task environment, it is also a feature that may affect staff auditors’ willingness to speak up by causing them to doubt the accuracy and significance of their concerns (Brazel et al. 2016). Ambiguity is becoming even more prevalent in today’s audit environment because of the increase in data availability, analysis, and technology. Additionally, the underlying accounting standards are becoming more subjective domestically (e.g., revenue recognition and leases) and internationally with the more principle-based IFRS. Audit research suggests that when ambiguity exists in an audit engagement, audit team members are more likely to look to their superiors and firm culture to determine whether to report issues (Pescosolido 2002). Because the perceived level of ambiguity is subjective, and is more often perceived by inexperienced auditors gathering the bulk of audit evidence, audit managers should be cognizant of this learning curve and helpful in defining and navigating ambiguity. Consequently, this study also examines whether audit leadership focus matters more when staff auditors face a relatively ambiguous audit situation.

**RQ3: Are auditors more willing to speak up when the issues are less ambiguous?**

In Study 3, 117 staff auditors from two audit firms respond to the same audit scenario and related questions from Study 1, but with two changes. First, audit leadership focus is
manipulated, instead of staff auditor traits, by having the senior to whom the staff auditor would report the issue emphasize either personal and professional growth (intrinsic motivation leadership focus) or career success (extrinsic motivation leadership focus). Second, the ambiguity of the issue is manipulated. In this study, the staff auditor acquires information about an issue from a client employee. Some auditors learn that the employee is relatively unreliable, thus increasing the ambiguity of the issue. Others learn that the employee is reliable, and therefore, the likelihood of the issue being true is relatively unambiguous. Interestingly, the participants suggest that staff auditors are more willing to speak up when the leadership focus is on intrinsic motivation instead of extrinsic motivation (RQ2) and when the issue is less ambiguous (RQ3).

One would assume that when an audit issue is unambiguous, all auditors, regardless of motivational orientation, would be willing to speak up because the cost of reporting the issue is relatively low. Furthermore, it is assumed that those intrinsically motivated auditors would be more willing to ask questions in ambiguous, complex audit settings. However, contrary to the authors’ expectations, intrinsic motivation leadership focus did not improve speaking up behavior more when the issue was more ambiguous. Instead, extrinsically motivated auditors were less likely to ask questions, even in unambiguous situations. This raises the questions of what personality traits and environments cause extrinsically motivated auditors to consistently remain silent and what impact could this have on audit outcomes? The findings suggest that audit leaders who focus on intrinsic motivation will prompt audit staff to be relatively more willing to speak up in all settings, regardless of the ambiguity of the audit issue. As such, the relatively simple task of intrinsically motivating employees can have a bigger impact than initially thought.
To clarify the main findings, Study 4 examines the same scenario as Study 3, but makes two important changes. First, the source of leadership focus is either the audit staff’s immediate supervisor (as in Study 3) or the partner on the job. Because previous research indicates organizational culture is most effectively communicated by immediate supervisors (Pickerd, Summers, and Wood 2015; Northhouse 2016), this change is designed to see how speaking up behaviors are affected when the source of leadership focus is no longer the staff’s immediate supervisor. Second, an alternative manipulation of ambiguity is used. If similar results are obtained with this alternative measure, confidence is gained that the observed effect is valid and not simply an artifact of the particular language used.

Sixty students with at least one audit internship participated in the study. The results extend and reaffirm the findings of Study 3 by (a) suggesting that emphasis of intrinsic goals by both the immediate supervisor and more senior members of the audit team can be effective in motivating staff auditors to speak up and (b) showing a similar pattern of results with the alternative measure of ambiguity.

IV. SUMMARY AND IMPLICATIONS FOR PRACTICE, STANDARD SETTING & ACADEMIA

One of the main takeaways from the work of KPRZ is that leadership focus on intrinsically motivating staff auditors can cause them to be more engaged and willing to bring potential audit issues to their superiors, which aligns with PCAOB AS 1201. Audit leaders should be aware that intrinsic motivational orientation has a positive effect on auditors’ willingness to speak up not only in ambiguous settings where you might expect additional, senior guidance to be sought, but
also in relatively unambiguous settings, as required to be compliant with PCAOB AS 1201. Interestingly, the source of leadership focus is not significant in their study, meaning that encouraging this orientation can be done at any level throughout the firm and still yield positive results.

**Implications for practice**

In this section, we expand upon the implications and practical application of these findings to a wide audience including audit staff, audit leadership, and human resource management, among others.

Ultimately, the PCAOB set a clear objective with AS 1201, but provided limited suggestions regarding execution. The work of KPRZ provides a relatively inexpensive solution for managers to encourage speaking up within audit teams and improve audit quality. Areas where firms could potentially implement these findings include:

1. **Hiring**: Firms could seek to hire employees with relatively high trait-levels of intrinsic motivational orientation. This could be done, for example, with better applicant screening through the use of psychological tests, such as the Work Preference Inventory (WPI) used in Study 2, or by asking interview questions designed to identify personal motivation factors.\(^5\)

2. **Training**: Firms could train managers to explicitly encourage intrinsic motivation among staff at all levels, but especially the lower-level audit staff. One way leaders can encourage the intrinsic mindset would be to have staff think about intrinsic rewards they

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5 Prior research indicates that intrinsic motivational orientation and extrinsic motivational orientation are relatively independent from each other such that one can be both highly intrinsically and extrinsically motivated (Amabile et al. 1994). Therefore, it is important to clarify that screening for job candidates who are more intrinsically motivated does not necessarily mean that firms will hire candidates who are less extrinsically motivated.
can achieve from their job, which has been shown to cause fuller engagement in their work (Kadous and Zhou 2019).

3. Leading: Encouraging intrinsic motivation can be achieved by “leading by example” and having senior staff, managers, and even partners communicate and publicize their intrinsic motivation in their work (e.g., learning opportunities provided by the career, the ability to work on challenging problems, etc.), which has been shown to be effective in intrinsically motivating newer hires (Friedman, Deci, Elliot, Moller, and Aarts 2010).

Alternatively, leaders can communicate the importance of intrinsic goals to team members through informational daily communication or through the performance review process. It is important to note that the leaders’ encouraging of intrinsically-focused orientation must be genuine, otherwise it may be perceived as coercive, which in turn may not yield the expected results.

4. Firm Culture: Prior research shows that firm culture that provides employees with a relatively high level of autonomy for their actions can foster employee intrinsic motivation and make employees more aware of their intrinsic motivation for their job (Gagné and Deci 2005; Peecher, Ricci, and Zhou 2019; Nelson, Proell, and Zhou 2020).

At the same time, firms should also avoid factors, such as particular reward structures and overly controlling work environments (e.g., close monitoring, micromanagement), that have been shown to undermine employees’ intrinsic motivation (Deci, Koestner, and Ryan 1999). While we acknowledge that changing firm culture might take considerable
time and resources, we observe that practitioners and regulators around the globe have
started to advocate for and implement a culture that fosters intrinsic motivation.\footnote{For example, many accounting firms have incorporated key elements of intrinsic motivation into their firm culture. These elements include overcoming challenges ("We challenge each other to be the best we can be"
https://www.grantthornton.global/en/about/culture-and-values) and enjoyment of work ("Engagement – We want all our people to feel enthused by their work..."
https://www.ey.com/cn/en/about-us/our-people-and-culture). Regulators have recommended that “autonomy and open communication must replace hierarchy and bureaucracy” (FAR 2020).}

5. Continual Implementation: To build intrinsic motivation into the firm culture, kick-off or mid-audit meetings could be scheduled where management re-emphasizes intrinsic goals, thus, instilling the point further. Prior research shows that repeated emphasis of intrinsic value of a task can have long-lasting impact on people’s motivation and behaviors (Vansteenkiste, Simons, Soenens, and Lens 2004; Aunola, Leskinen, and Nurmi 2006). Furthermore, firms’ managing staff should be prepared to handle the uptick in issue sharing and be taught to show appreciation for all communication regardless of perceived importance.

\textit{Implications for standard setters}

This paper will interest the PCAOB by providing evidence on the effectiveness of certain interventions in better operationalizing PCAOB AS 1201 to yield high audit quality. This may help them in designing further guidance materials regarding this standard. Effectively applying this standard in practice could also provide the PCAOB evidence that they can regulate effectively through non-punitive and cost-effective measures.

\textit{Implications for academia}

The findings of KPRZ expose many areas for future research. One of the intriguing findings is that there is variance in whether an auditor will speak up even in unambiguous audit situations. Further investigations could identify reasons why some auditors choose to remain silent, even
when the cost of doing so is low. While self-doubt and fear of management retaliation due to inefficiencies are documented in the literature, age and experience of the auditor, ranking of the audit firm, and elements of firm culture could be explored. Inexperienced auditors may also be hesitant in raising concerns because they overestimate the ambiguity of situations. Future research can investigate what factors cause auditors to overestimate issue ambiguity and provide potential training tools and interventions to mitigate auditors’ misperception of issue ambiguity.

Echoing PCAOB AS 1201, audit leaders should be aware of the potential impact that non-communication of audit concerns can have on audit outcomes.

Given that auditors operate in an environment where extrinsic incentives are abundant, it is also important to examine how intrinsic motivation and extrinsic incentives interact to influence auditors’ willingness to speak up. Prior research indicates that intrinsic motivation and extrinsic motivation are not mutually exclusive and that one can be motivated intrinsically and extrinsically simultaneously (Gagné and Deci 2005). Some contemporary research has looked into the interactive effects of intrinsic motivation and extrinsic incentives on auditors’ judgment (Zhou 2020). However, more research is needed in this area, especially on how firms can design incentive structures to work synergistically with auditors’ intrinsic motivation to improve auditors’ willingness to speak up and other important auditing behaviors.

Additionally, one caveat for managers to consider is whether these results are generalizable to a diverse, international workforce. It is worth exploring whether motivating employees to act intrinsically has the same effect across cultures. For example, does intrinsic motivation from management take different forms internationally, specifically for staff with cultures built around indirect communication (e.g. collectivist cultures)?
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Figure 1: Effects of ambiguity and leadership focus on auditors’ willingness to speak up regarding audit issues

Source: Kadous et al. (2019) p. 2127.
Table 1: Effect of staff auditor’s motivational orientation on willingness to speak up on audit issues

Panel A: Mean of assessment of the staff auditor's willingness to speak up

| Staff Auditor's Motivational Orientation | Willingness to Speak Up |
|------------------------------------------|-------------------------|
|                                          | 67.54                   |
| Intrinsic                                | 67.54                   |
|                                          | (16.75)                 |
|                                          | n = 93                  |
| Extrinsic                                | 41.16                   |
|                                          | (21.82)                 |
|                                          | n = 93                  |
| Control                                  | 44.12                   |
|                                          | (17.30)                 |
|                                          | n = 93                  |

Panel B: Contrasts based on repeated measures ANOVA for assessments of the staff auditor’s willingness to speak up

| Contrasts                                   | df | Sum of Squares | F    | p-value |
|---------------------------------------------|----|----------------|------|---------|
| Intrinsic vs. Control (H1)                  | 1  | 25,504         | 90.25| <0.01   |
| Extrinsic vs. Control                       | 1  | 407            | 1.44 | 0.23    |
| Intrinsic vs. Extrinsic                     | 1  | 32,351         | 114.48| <0.01   |
| Error                                       | 184| 51,995         |      |         |

Source: Kadous et al. (2019), p. 2120.