

THE PERCEPTION SUPERIORS AND SUBORDINATES TOWARD PERFORMANCE EVALUATION OF AUDITORS

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Keywords: Auditor performance evaluations, Analytical Hierarchy Process, Role congruence

Summary: *This study extends prior research that examined dimensions employed in audit practice to evaluate job performance. The previous research in some countries, like Canada, show that using Analytical Hierarchy Process can increasing or even decreasing performance dimensions as auditors progress in their careers, and permit an assesment of the degree of agreement in role perceptions between superiors and subordinates for different positions within the firm.*

The findings confirmed that role expectations are significantly different at different positions in the firm. The results contrary to previous U.S. research findings but confirmed Canada findings, there was strong agreement between role expectations of superiors and subordinates. There were no gender differences at any level. Staff development was found to rank at or near the bottom of responsibilities for all positions.

1. Introduction

The primary purpose of this research is to examine the level of superior-subordinate congruence in the importance of various dimensions of job performance as an individual progress through the ranks from staff auditor to partner. Secondary purpose is to develop a systematic description of how performance criteria dimensions change as auditors progress through positions.

2. Background and Development Of The Hyphoteses

Previous research has suggested that one of the most important formal mechanisms by which firms expectations to their members is the incentive and reward system, particularly promotion (Ferris and Larcker 1983; Jansen and von Glinow 1985; McNair 1991; Merchant 1985; Ponemon 1992). Ponemon (1990) cites promotion as one of the major control mechanisms employed to convince employees to think and behave in the best interest of the firm. Accordingly, we have defined good auditor performance in terms promotability.

In auditing firms, individual at different levels are evaluated on different criteria (McNair 1991). Dirsmith and Covalleski (1985a), for example, found that staff auditors and senior were involved primarily in executing the "craft of auditing" as opposed to the "business of auditing." Therefore, the first hyphotesis to examines the existence of this phenomenon may be stated as:

H1: There is different dimensions of performance that lead promotion for auditors at different levels in the firm

Chatman (1991) suggests that congruence (accuracy of perception between the employee and his or her superiors) is essential for the employee to be able to achieve success (see also Jiambalvo 1982). Dean et al. (1988) and Sorensen and Sorensesn (1972) suggests that role perceptions gap may be a contributing factor to what they term organizational reality shock, to organizational commitment and ultimately to job turnover. An early study by Rhode et al. (1977) showed that for many former employees who had left their firms, either voluntarily or at the request of the firm, a contributing factor, in the employee opinion, was that the firm had not made role expectations clear.

To address the somewhat conflicting results of other prior research (see for instance Jiambalvo 1982; Jiambalvo et al. 1983; Maher et al. 1979), this study directly examined role congruence- the degree to which expectations of superiors in auditing firm are understood or internalized by their subordinates. The second hyphotesis stated as:

H2: There is congruence in perceptions of the importance of different performance dimensions between auditors at each level and their superiors

3. Methodology

3.1. The Research Instrument

The primary motivation underlying the selection of the performance dimensions was to obtain a reflection of current practice in evaluating staff for promotion. To meet that objective, performance evaluation forms were initially obtained from instrument that was used by Emby and Etherington (1996). The instrument had been modified with including ethics factors in Professional Ability dimensions. Table 1 elaborates performance dimensions clearly.

3.2. The Analytic Hierarchy Process

The instrument was based on the Analytical Hierarchy Process (AHP) of Saaty (1977, 1980, 1986; see Arrington et al. 1984 and Hassell and Arrington 1989 for auditing applications). The complete AHP is linear, multiple criteria compensatory model which may be used to identify or choose the “best” alternative according to a given set of criteria. The first step of the process rates the importance of the dimensions relevant to that choice.

The purpose of the AHP is to measure the relative importance of a set of performance dimensions in making a particular decision for promoting an auditor. Subjects are asked to make paired-comparisons for the factors in performance dimensions within each hierarchical level. Respondents compared the seven dimensions to each other, two at a time, and indicated on a scale of 1 to 9 which of the two felt was most important in determining promotable performance for an auditor. After that, we use ANOVA and MANOVA for measure significantly differences AHP score between raters.

The AHP technique uses a matrix of comparisons of all pairs of elements and converts it to a cardinal scale summing to one, with values for each of the elements. Advantages to the AHP methodology are its rigor, the relative cognitive ease of making pair-wise comparisons and that the resulting cardinal scale enhances the power of statistical analysis.

In the process of converting the results of the pair-wise comparisons to cardinal scores, the AHP generates an inconsistency index. The calculation of the index takes into account the pair-wise comparison of dimensions A vs C with the pair-wise comparisons of A vs B and B vs C in terms of both direction and magnitude, with the index reported as a normalized value between 0 and 1. The inconsistency measures were used to discard data from respondents with unacceptably high inconsistency indices.

In order to ensure that subjects had experience at the position they were rating, they were asked to provide ratings for either their own position, or one below them. Each subject was asked to rate only one position. Since we defined performance in terms of promotability, dimensions for partners were not included. To control for order effects there were one variation of each six combinations. The variation by make rank for the performance dimensions.

The manner in which the respondent was to rank the dimensions was explained and illustrated clearly. The last page of the instrument requested demographic.

Table 1
Performance Dimensions¹

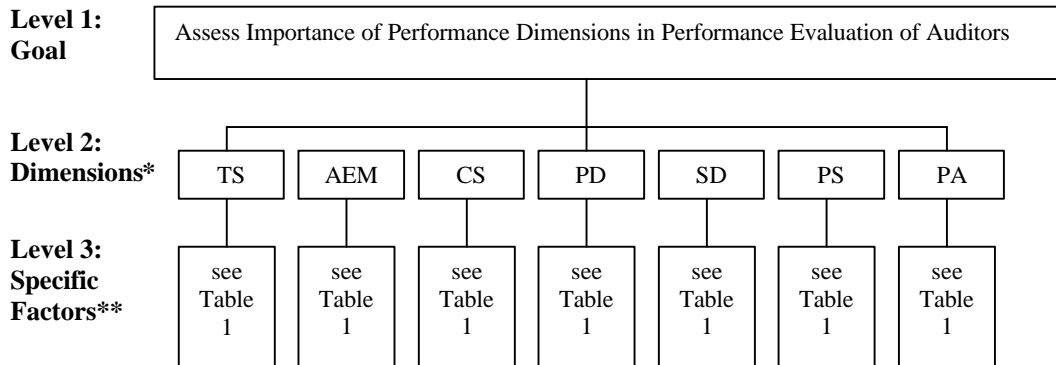
No.	Performance Dimensions
1	<p>Technical Skills (TS)</p> <p>e.g. auditing and accounting knowledge and ability (familiarity with SPAP (Standard for Accounting Public) and SAK (Financial Accounting Standard))</p> <ul style="list-style-type: none"> - ability to apply knowledge to specific situations -working paper preparation
2	<p>Audit Engagement Management (AEM)</p> <p>e.g. ability to plan and administer audit program in an effective, timely manner</p>
3	<p>Client Services (CS)</p> <p>e.g. developing and presenting Management Letter recommendation to client management promoting new or expand services to existing clients</p> <p>facilitating performance of the audit by obtaining respect and confidence of the client</p>
4	<p>Practice Development (PD)</p> <p>e.g. developing new clients through involvement in profesional and community organizations presentations to prospective clients</p>
5	<p>Staff Development (SD)</p> <p>e.g. on the job training, supervisions and evaluations/appraisal of staff</p> <p>establishing leadership role</p>
6	<p>Personal Skills (PS)</p> <p>e.g. interpersonal relations (with clients, peers, subordinates, supervisors)</p> <p>communicating with client and rest of audit team effectively</p>
7	<p>Professional Ability (PA)</p> <p>e.g. solving client problems</p> <p>ethics</p> <p>willingness and ability to accept responsibility on job</p> <p>general business knowledge</p> <p>professional judgment and common sense</p> <p>ability to learn on the job and manage tim</p>

¹ we adopt from Emby and Etherington (1996)

3.3. AHP Hierarchy for Auditor Performance Evaluations

Emby and Etherington (1996) identifies criteria that are commonly known as performance dimensions, that enter into the assessment of the importance each dimensions for promoting an auditor. Based on prior research (Emby and Etherington 1996), we developed an AHP hierarchy for performance evaluations (see Figure 1). The hierarchy consists of three levels: level one is the most general, and level three is the most specific. Level one is the goal of the hierarchy, which is specified as “Assess Importance of Performance Dimensions in Performance Evaluation of Auditors”. Level two consist of the performance dimensions. Level three reflects performance factors within the respective dimensions.

Figure 1
Performance Evaluation Hierarchy



*TS = Technical Skills, AEM = Audit Engagement Management, CS = Client Service, PD = Practice Development, SD = Staff Development, PS = Personal Skill, PA = Professional Ability
** Each factors are detailed in Table 1.

3.4. Subjects

The subjects were practicing public accountants employed in auditing in any level. Questionnaires were distributed in Jakarta, Yogyakarta and Surabaya. A total of 122 questionnaires were distributed, of which 112 were returned and 81 were usable. The response rate was about 66.4%. Some questionnaires that cannot be used because of completeness and consistency answer. Respondents completed a questionnaire in one meeting or training class.

Gender representations varied only slightly for staff, senior, manager and partner positions. Male respondents more than female (about 63% male and 37% female). Table 2 provides respondent information. Gender effects were examined as previous research (Maupin and Lehman 1994; Emby and Etherington 1996).

Table 2
Respondents to Questionnaire
by Firm Position

Rater	Experience (in years)	Total
Staf	1.7	15
Senior	3.7	23
Manager	7.4	29
Partner	14.9	14
Totals		81

3.4. Procedure

The instrument was pretested with accounting students (i.e., students who had taken auditing class) to provide their judgments about the relative importance of the seven performance dimensions for a staff auditor in a public accounting firm. Both administration of the test and results indicated that the instrument was clearly understood by subjects.

Each of the personnel partners/managers wrote a covering memo for distribution to the professional audit staff, explaining the study and requesting their assistance. Respondents were assured of anonymity. The guarantee of anonymity precluded follow-up.

4. Results and Discussion

4.1. The Results for H1

H1: There is different dimensions of performance that lead promotion for auditors at different levels in the firm

The result support H1 partly. The overall results (all ratings of each position) in table 3 show the changes in role and performance expectations as an auditor progress upwards in the firm hierarchy. Initial analysis of data by firm showed a high degree of inter-firm agreement. For senior and manager levels there were no significant differences by firm in the AHP ratings. For staff auditors there were three significant difference between firms- Practice Development ($F = 13.52$, $p < 0.0001$), Technical Skills ($F = 3.81$, $p < 0.05$) and Client Service ($F = 11.61$, $p < 0.0003$).

Table 3
Ratings for Different Positions in the Firm- by all Raters

Mean AHP Scores				
(Ranking)				
Job Performance Dimensions	Staff	Senior	Manager	Signif. Of Differences ²
	mean rank ³	mean rank	mean rank	
Professional Ability	0.192 2	0.205 1	0.191 1	0.585
Audit Engagement				
Management	0.141 4	0.183 3	0.139 5	0.008
Technical Skills	0.193 1	0.198 2	0.142 4	0.035
Client Services	0.134 5	0.152 4	0.182 2	0.017
Personnel Skills	0.173 3	0.133 5	0.144 3	0.007
Staff Development	0.104 6	0.077 6	0.081 7	0.009
Practice Development	0.063 7	0.052 7	0.121 6	0.001

The results of an overall MANOVA ($F = 4.23$; $p = 0.001$) and ANOVA on each of the seven mean ratings across the three positions indicate clearly, confirming the findings of previous research, that the importance of performance dimensions changes as an auditor achieves higher rank within the firm. Only Professional Ability was *not* statistically significantly different at different positions ($F = 0.48$, $p = 0.313$).

² Results of univariate F-tests on differences rater

³ The within-position rankings

These changes across ranks illustrates that as individuals progress through the ranks of a public accounting firm, skills that were ranked as relatively important at a lower level cease to be ranked so importantly. A potential explanations for this is because they are considered to be prerequisites for the current rank- promotion to the current rank may not have occurred had the skill been substantially lacking. This in turn implies that the skill is not absent or unimportant in the next rank, but rather that those achieving the next rank now need to develop new skills comprising the more advanced aspects of professionalism. It is these new skills that are rated as more important at the next level.

With respect to the individual characteristics, several changes are evident across positions. Both staff and seniors are expected to display a high level of technical skills, but the priority of this expectation decreases at the manager level.

Personal skills are rated more highly for staff than for seniors and managers. As it is often the staff auditors who have the most contact with client personnel whose cooperation is essential to a smooth-running audit, personal skills are particularly relevant for this group. Due to youth and relative inexperience of staff, it is also more likely that Personal Skills would be lacking at this level than at higher levels.

Audit Engagement Management scores more highly for seniors than for either staff or managers. This is consistent with seniors' responsibility for managing the field-work portion of most audits, an important component of job performance for that position.

Client Service increases in importance as the auditor progresses in his or her career. Promoting new and existing services to clients clearly becomes increasingly important to achieve promotion to higher rank.

The scores for Staff Development suggest the existence of a potential problem which may affect relatively new firm members. The low ratings this dimension receives at all firm positions is consistent with this perception. The score for this dimension becomes even lower for more senior positions in the firm. This study's finding of little specified responsibility for staff development is consistent with their depiction of an informal rather than formal process.

For Practice Development the AHP score shows that the expectation for both staff and seniors is again about equal, both being relatively low. The similar low rating for managers suggests that Practice Development is seen as primarily the responsibility of the partners.

4.2. The Results for H2

H2: There is congruence in perceptions of the importance of different performance dimensions between auditors at each level and their superiors

The result support H2. The assessment of staff performance dimensions were remarkably similar across raters, providing a profile of the staff auditor that is quite consistent. Table 4 shows the AHP scores (and ranks) for staff.

ANOVAs showed that ratings for the Audit Engagement Management dimension differed significantly by the position of the rater ($F= 7.24, p< 0.0084$). Seniors scored Audit Engagement Management for staff significantly higher than did other raters, a difference significant by a Newman-Keuls post hoc comparison of means test at a $p < 0.05$. This suggests that they had the highest expectations with respect to their role of staff. Since the field-work portion of most audits is performed by teams made up of staff with one or perhaps two "in-charge" seniors, this indicates that seniors would like to see staff take a more active role in coordinating field-work activities. Personal Skills was statistically significant ($F= 4.2, p= 0.04$).

Among the lower-rated dimensions, as expected, was Practice Development. At this early stage staff would normally have neither the contacts nor the opportunity to actively promote new business for the firm. There were no gender differences by rater for staff.

Table 4
Ratings for Staff Position by Rater Group

Mean AHP Scores (Ranking)									
Ratings by									
Job Performance Dimensions	Staff		Seniors		Managers		Partners	Signif. of differences	
	mean	rank	mean	rank	mean	rank			
Professional Ability	0.191	3	0.194	1	0.191	2	0.188	2	0.996
Audit Engagement In Management	0.125	5	0.175	2	0.128	5	0.092	6	0.010
Technical Skill	0.200	1	0.171	3	0.205	1	0.236	1	0.407
Client Services	0.131	4	0.131	5	0.144	4	0.167	3	0.726
Personnel Skills	0.195	2	0.155	4	0.155	3	0.136	4	0.067
Staff Development	0.104	6	0.103	6	0.114	6	0.074	7	0.559
Practice Development	0.055	7	0.070	7	0.064	7	0.107	5	0.519

4.3. Seniors

Table 5 shows the ratings for seniors. The ratings show strong role congruence. ANOVAs showed no significant differences by rater group for any of the performance dimensions. Thus it appears that the performance expectations of seniors are well communicated throughout the firms. For seniors, the dimensions of Professional Ability and Technical Skills received consistently high ratings from all rater groups. The importance placed on Audit Engagement Management for seniors by seniors indicates that they see a major aspect of their responsibilities to be related to managing the field-work portion of the audit engagement.

The importance of the other four categories for seniors' performance was viewed similarly by all three position groups. Client Service and Personal Skills were in the middle, while Staff Development and Practice Development were sixth and seventh respectively. It might be expected that the seniors would be the logical choice for developing the abilities of the staff accountants, but if this is considered to be one of their responsibilities, other functions take priority. There were no gender differences by rater for seniors.

Table 5
Ratings for Senior Position by Rater Group

Mean AHP Scores (Ranking)									
Ratings by									
Job Performance Dimensions	Seniors		Managers		Partners		Average of all superior	Signif. of differences	
	mean rank		mean rank		mean rank				
Professional Ability	0.207	1	0.206	1	0.200	2	0.204	2	0.978
Audit Engagement In Management	0.192	2	0.185	3	0.147	5	0.172	3	0.377
Technical Skill	0.183	3	0.200	2	0.247	1	0.215	1	0.292
Client Services	0.147	4	0.156	4	0.165	3	0.159	4	0.862
Personnel Skills	0.137	5	0.118	5	0.148	4	0.128	5	0.496
Staff Development	0.082	6	0.082	6	0.049	6	0.071	6	0.286
Practice Development	0.053	7	0.053	7	0.045	7	0.05	7	0.919

4.4. Managers

The manager position was rated by partners and managers. ANOVAs on each dimension showed no statistically significant differences by rater in the evaluation of their importance, again indicating a high degree of congruence. Communication of role expectations for managers appears to be successful. Table 6 shows the ratings for managers by the two rater groups. But there were significant gender differences between ratings of men and women for manager level.

For men Professional Ability is again considered to be very important by partners and managers, with Client Service also at the top of the list. The importance of Client Service, combined with the fact that partners rate Practice Development as the third most important performance characteristics for managers, indicates that they are expected to have a strong business orientation-an ability to generate client revenue for the firm. This expectation appears to be quite well understood by managers in the case of Client Service, but perhaps not as well in the case of Practice Development, which is next to last in managers' ratings. Managers see Audit Engagement Management as the third most important dimensions of their job, while partners rate it next to last. The above results indicate that partners' expectations of managers appear more oriented toward business enhancement.

At the other end of the spectrum, the least important performance dimension for managers, in the opinion of both partners and managers, is again Staff Development. For women, Technical Skill is considered to be the most important performance characteristics for managers. This result show that the relative importance of performance dimensions for women's rater at manager level still internally-skill.

Table 6
Ratings for Manager Position by Rater Group

Mean AHP Scores					
(Ranking)					
Ratings by					
Job Performance Dimensions	Managers		Partners		Signif. Of Differences
	mean	rank	mean	rank	
Professional Ability	0.202	1	0.206	2	0.246
Audit Engagement					
Management	0.157	3	0.101	6	0.071
Technical Skills	0.137	5	0.151	4	0.659
Client Services	0.174	2	0.199	1	0.445
Personnel Skills	0.152	4	0.127	5	0.413
Staff Development	0.072	7	0.096	7	0.295
Practice Development	0.106	6	0.161	3	0.080

5. Discussion and Suggestions for Future Research

This research used the Analytical Hierarchy Process to measure auditors assessments of role perceptions, an important component of the multidimensional construct of performance evaluation of professional auditors. Results identify the importance placed on different dimensions of auditor performance for staff, seniors and managers levels in audit firms. The test instrument was formulated to reflect the actual practice of firms. With any overlap or ambiguity in dimensions reflecting that practice. The data provide a profile of staff, seniors and managers which is held quite consistently across these firms. At the staff level, the emphasis is on technical proficiency and what might be called more internally-focused skills. Upon promotion to senior, technical skills and individual professionalism are important, but management ability becomes more important as well. At the level of manager, the trend continue and the focus shifts further toward management skills, including, in the view of the partners, the external business environment.

The results are interesting also indicating what is not important. Staff Development is considered to be a dimension of relatively lesser importance for all auditor positions. The implicit assumption appears to be that junior members of the firm are to acquire the necessary training informally. The generally high level of congruence found in this study, however, suggests that at present such an approach appears to be proving effective in communicating expectations. However, in the long term, the relative unimportance of the dimension of staff development for all levels and in all firms may indicate that it deserves more attention especially for improve the audit quality.

The prospect of an evaluation may induce either higher or lower performance depending primarily the nature of the work being performed. However, evaluations and anticipated evaluations have been uniformly characterized as promoting negative sentiments toward the task and the evaluative process. An extension of this research would be to utilize the ratings for negative sentiments perceptions in performance dimensions for any level auditor. As Brownell (1981) locus of control plays an important role in human performance in such accounting settings as participative budgeting and dealing with audit conflict (Tsui and Gul 1996). Future research could test the role of locus of control for each auditor to evaluate importance of performance dimensions and develop ethical reasoning dimension individually especially for test auditor independence appearance.

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