

PRACTITIONER SUMMARY

Does Gender and Ethnic Diversity among Audit Partners Impact Office-Level Outcomes?

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SUMMARY: Accounting firms have invested significant resources in diversity initiatives related to recruiting, retention, and promotion. Audit regulators suggest these efforts can have positive repercussions on audit quality. This article summarizes the key findings by [Condie, Lisic, Seidel, Truelson, and Zimmerman \(2023\)](#) (CLSTZ) regarding the influence

For helpful comments and suggestions, we thank Nicole S. Wright (editor) and two anonymous reviewers.

The Securities and Exchange Commission (SEC) disclaims responsibility for any private publication or statement of any SEC employee or commissioner. This article expresses the author's views and does not necessarily reflect those of the Commission, the commissioners, or other members of the staff.

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Editor's note: Accepted by Editor Nicole S. Wright.

Submitted: September 2023
Accepted: December 2023
Early Access: February 2024

of a more diverse group of audit partners within an audit office on office-level outcomes. Specifically, CLSTZ examines whether gender and ethnic diversity among audit partners within an office influences audit personnel retention and audit quality. CLSTZ finds that greater diversity (greater changes in diversity) among an office's audit partners is associated with less (reduced) turnover among the audit professionals in that office and higher (increased) audit quality. These findings provide empirical evidence regarding the influence of a more diverse group of office audit partners on office-level outcomes and have important implications for accounting firms.

JEL Classifications: M41; M42.

Keywords: audit partner diversity; gender; ethnicity; audit offices; personnel retention; audit quality.

I. INTRODUCTION

Advocates for diversity, equity, and inclusion believe that having a diverse workforce is socially and economically valuable. Some studies suggest that having people from different backgrounds in the workplace can bring different perspectives, foster innovation, and improve the quality of products and services (Kogan and Wallach 1966; Sah and Stiglitz 1986; Cox 1994, 2001; Hubbard 2004). However, other studies argue that diversity can lead to challenges such as reduced cohesiveness and increased turnover (Tsui, Egan, and O'Reilly 1992; Williams and O'Reilly 1998; Kochan et al. 2003; Rothman, Lipset, and Nevitte 2003). Given the efforts by accounting firms to hire and help promote more diverse candidates, it is important to understand how these efforts impact overall human capital management and organizational performance (Franzel 2014).

Prior diversity-related research in auditing focuses on the influence of diversity within engagement teams (e.g., Cameran, Ditillo, and Pettinicchio 2018) or characteristics of individual engagement team members (i.e., the engagement partner) on engagement-level audit quality (Ittonen, E. Vähämaa, and S. Vähämaa 2013; Hardies, Breesch, and Branson 2015; Lee, Nagy, and Zimmerman 2019; Burke, R. Hoitash, and U. Hoitash 2019; Krishnan, Singer, and Zhang 2022). Findings from international studies provide evidence that clients of female and non-Caucasian audit partners tend to be associated with higher quality audit outcomes (Ittonen et al. 2013; Li, Qi, Tian, and Zhang 2017; Cameran et al. 2018; Krishnan et al. 2022). In the United States, the evidence is much weaker or not observed (Burke et al. 2019; Lee et al. 2019). CLSTZ differs from prior studies in that they focus on the implications of gender and ethnic diversity among office audit partners to *office-level* outcomes. Specifically, they examine whether the gender and ethnic diversity of an office's audit partners (hereafter, "office audit partner diversity") influences the retention of office audit professionals and the quality of the audits conducted by the office.

Audit partners lead and set the tone for the office audit practice, evaluate subordinate performance, and have considerable influence over promotion decisions (Chen and Bliese 2002; Schyns and van Veldhoven 2010). As such, audit partners play an important role in employees' connection to the organization. Given recent trends in recruiting strategies focused on diverse candidates (e.g., KPMG 2021), a more diverse group of audit partners within an office can help create a more inclusive environment where all staff members feel comfortable being themselves at work and can envision a path forward in the partnership. This sense of belonging is crucial for individuals to feel motivated and committed to the success of the organization.

We summarize CLSTZ's key findings, which suggest that the tone set by a more diverse group of audit partners within an audit office provides important economic benefits. Specifically, greater office audit partner diversity is associated with less turnover among audit office professionals and higher quality audits for issuer clients. Their analyses suggest that at least part of the impact of office audit partner diversity on audit quality occurs indirectly through increased retention, greater audit office personnel gender and ethnicity diversity, client continuity, and office efficiency. We follow this summary with a discussion of the implications of CLSTZ's findings for practitioners.

II. RESEARCH METHOD AND RESULTS

CLSTZ motivate their study based on prior research on organizational identification and the results of 23 semistructured interviews with audit partners and directors from seven of the eight accounting firms included in their empirical analysis sample (PwC, EY, Deloitte, KPMG, Grant Thornton, BDO, RSM, and Crowe). Interviewees were of different gender and ethnic categories—males (57 percent), females (43 percent), White (57 percent), Black (22 percent), Hispanic (17 percent), and Asian (4 percent). Interviewees were asked a series of questions including what factors they believed drive the recruitment, retention, and promotion of diverse auditors in terms of gender and ethnicity; whether office audit partner diversity influences staff turnover, performance, satisfaction, productivity, and ultimately audit quality; and whether they perceive benefits or consequences of having greater diversity among office partners.

Consistent with organizational identification, a clear majority of interviewees suggested that a diverse group of office audit partners brings balanced perspectives that can positively influence decision-making, including office-level strategic and human capital decisions. One interviewee noted that “having a diverse perspective of viewpoints in the room...as you make decisions, as you think of strategies, as you talk about what would relate to our teams and what would relate to our clients, or what would relate to our prospect...I think we consistently see better outcomes” (CLSTZ, 6). A clear majority of the interviewees also suggested that office audit partner diversity can help all office audit professionals, particularly those in minority groups, to envision a path forward in the partnership. Speaking about envisioning a path to the partnership, one interviewee stated, “If you don't see it, you don't believe it...When you look up, and you're like, okay, well, every single person on the leadership team is a White male” (CLSTZ, 7). About half of the interviewees indicated that office audit partner diversity can help set a positive tone in the office by creating a more inclusive environment where staff can feel comfortable bringing their full selves to work. For instance, one interviewee stated that diversity “does impact people wanting to really be here and that sense of belonging,” whereas another stated that “once you get the diversity, you move to inclusion because the more diverse people will force you to have the conversation” (CLSTZ, 6). These responses highlight how office audit partner diversity can foster stronger organizational identification, which can not only influence office personnel intentions to stay but also their satisfaction, instilling a greater sense of care about the quality of their audit work. One interviewee stated, “You have people who feel respected and...if people are motivated and want to be here, they are going to do better work, which leads to higher quality” (CLSTZ, 8).

To examine empirically whether office audit partner diversity influences retention of office audit personnel and audit quality, CLSTZ collected data from various sources. They identify audit partners that sign opinions for publicly traded companies, public company employee benefit plans, or investment companies using the Public Company Accounting Oversight Board's AuditorSearch

(Form AP) database and audit partners that sign opinions for nonprofit or governmental entities subject to Uniform Guidance (Single Audits) using Audit Analytics' Nonprofit Audit database. They then identify an audit partner's gender by manually observing and coding the person's photograph online unless the gender is unambiguously clear from their first name. To identify ethnicity, they use the Onomap classification algorithm following prior research (Ellahie, Tahoun, and Tuna 2017; Bernile, Bhagwat, and Yonker 2018), which assigns ethnicity based on first and last name. The ethnic categories provided by Onomap include White/Caucasian, African American, Hispanic, Asian, and Other. They then manually search for online photographs and biographical information to verify the accuracy of the Onomap classification and adjust as necessary. Finally, they capture gender and ethnic diversity of office audit partners in terms of "variety" (Harrison and Klein 2007). Minimum variety occurs when all office audit partners belong to the same gender or ethnic group, and maximum variety occurs when all gender and ethnic groups are equally represented.

Auditor Retention

Because turnover of audit personnel is not publicly available, CLSTZ captures turnover using the Burning Glass Labor Insights database to identify all audit-related job postings associated with an audit firm's office. CLSTZ analyzes audit job postings for experienced hires (i.e., for positions other than first-year staff). Using regression analysis that controls for other factors that would influence audit job postings within an office (e.g., client wins/losses, local area demographics, client events or transactions that would increase staffing needs or lead to burnout and turnover, macroeconomic trends, etc.), CLSTZ examines, separately and combined, whether the gender and ethnic diversity of office audit partners is associated with audit job postings within an audit office, incremental to these other factors. Additionally, they examine the association between changes in these measures. They find negative associations between the office audit partner diversity measures and audit job postings and negative associations between changes in these measures. Table 1, Panel A provides the average composition of office audit partner gender and ethnicity in CLSTZ's sample. The average office has almost ten audit partners, with approximately two of those being female and approximately two being non-Caucasian. Panel B provides an overview of the economic significance of CLSTZ's findings. Their results suggest that adding an audit partner with a different gender (ethnicity) to the average-sized office (six audit partners) with no gender or ethnic diversity is associated with a 7.6 (7.9) percent decrease in office audit postings.

Audit Quality

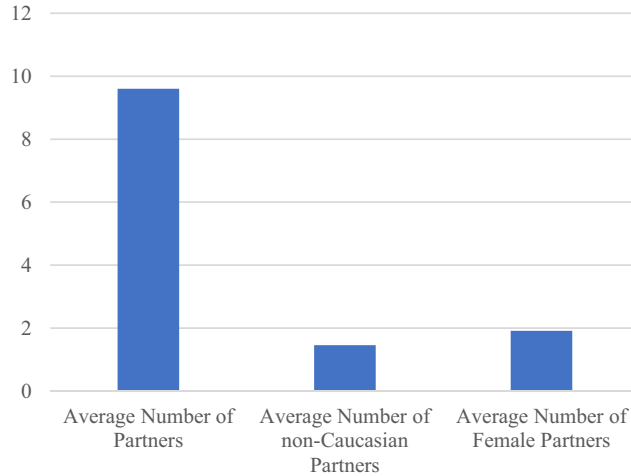
CLSTZ captures audit quality based on the proportion of audit office clients with a financial statement misstatement, which is revealed through a subsequent restatement. Restatement data are gathered from the Audit Analytics Non-Reliance Restatement database. Using regression analysis that controls for other factors that would influence the proportion of misstatements among the clients of an audit office (e.g., office size, average client size, risk and complexity, macroeconomic trends, etc.), CLSTZ examines, separately and combined, whether the gender and ethnic diversity of office audit partners is associated with the proportion of misstatements among issuer clients of an audit office. Additionally, they examine the association between changes in these measures. They find negative associations between the office audit partner diversity measures and the proportion of misstatements among office issuer clients and negative associations between changes in these measures. Table 1, Panel B provides an overview of the economic significance of

TABLE 1

Office Composition and Economic Significance of Findings

Panel A: Average Composition of Office Audit Partner Gender and Ethnicity

Average Office Composition in Sample



Panel B: Economic Significance of Findings For an Average-Sized Office (i.e., Six Partners) with No Gender or Ethnic Diversity, Adding an Audit Partner with a:

	Is Associated with a Decrease in Office Audit Postings of:	Is Associated with a Decrease in the Misstatement Rate of:
Different gender	7.6%	13.9%
Different ethnicity	7.9%	21.2%
Different gender and ethnicity	15.0%	32.6%

Source: Adapted from CLSTZ.

CLSTZ’s findings. Their results suggest that adding an audit partner with a different gender (ethnicity) to the average-sized office (six audit partners) with no gender or ethnic diversity is associated with a 13.9 (21.2) percent decrease in the office-level misstatement rate.¹

It is important to note CLSTZ is subject to several limitations. First, the study assigns the partners to offices using the audit opinion. It is possible that the office disclosed is the office of the lead engagement partner and not necessarily the office of the audit staff for these engagements. This is a limitation inherent to all audit office studies that rely on audit firm opinions to identify the audit office. However, to the extent that large offices in larger metropolitan areas are more likely to staff

¹ CLSTZ also provides a battery of robustness tests and additional analyses. Based on the interview findings, CLSTZ examines the factors that influence office audit partner diversity and the mechanisms through which office audit partner gender and ethnic diversity positively influence audit quality. Results of these analyses indicate that local area factors, such as the demographics of local area auditors, and office-level factors, such as the office managing partner gender, office size, and the gender and ethnicity of nonpartner office auditors, are influential in office audit partner diversity. Additional tests find no evidence that the effect of office audit partner diversity on office audit personnel retention and audit quality differs based on the gender and ethnic diversity of the local supply of auditors. This result is important and highlights positive repercussions to office-level efforts to promote gender and ethnic diversity. Further, the impact of office audit partner diversity on audit quality appears to occur indirectly through increased retention, greater audit office personnel gender and ethnicity diversity, client continuity, and office efficiency.

engagements with local professionals, this limitation would be less of a concern. CLSTZ finds similar results when including audit office fixed effects suggesting that the results they observe manifest among offices of all sizes. Second, CLSTZ's analyses are constrained to publicly available partner-related data and do not incorporate partners that serve private clients exclusively. Third, although the models in CLSTZ control for various factors that would influence audit job postings within an office, they may not fully capture all variation in regional staffing needs. Despite these limitations, the findings of CLSTZ underscore the importance of diversity in office audit partner gender and ethnicity to the office audit practice.

III. IMPLICATIONS FOR PRACTICE

The findings of CLSTZ offer several key insights that should be of interest to accounting firms and audit regulators. First, the results highlight economic benefits to efforts by audit firms, and offices within firms, to retain and promote a diverse group of auditors to the partnership in terms of auditor retention and audit quality. This is particularly important given evidence of the negative repercussions that turnover can have on audit quality (Christensen, Newton, and Wilkins 2021; Financial Reporting Council 2021; van Linden, Vandenhoute, and Zimmerman 2021) and the role that leaders play in setting the tone and organizational climate within audit firms (International Federation of Accountants 2007; Center for Audit Quality 2010; Committee of Sponsoring Organizations of the Treadway Commission 2013; Public Company Accounting Oversight Board (PCAOB) 2015). The evidence presented in CLSTZ suggests that a more diverse group of audit partners within an office can help establish a tone of belonging and opportunity within an office that leads to greater retention and higher quality audits. Additional tests performed in CLSTZ help to rule out an alternative explanation that audit partners from typically underrepresented groups are simply better on average. Audit offices with low partner diversity due to a high representation of typically underrepresented groups do not exhibit the same statistical associations with audit job postings and client misstatements. Thus, audit partner variety matters. Further, the evidence in CLSTZ indicates that the benefits to retention and quality are most pronounced in offices with greater diversity across both dimensions (i.e., gender and ethnicity).

A second and important insight is that the results are not dependent on the local supply of auditors. This has managerial implications for audit office efforts to promote diversity and suggests that office-level efforts can be incrementally beneficial to firm-wide initiatives. For instance, office leaders may consider the value of nontraditional recruiting efforts to increase the diversity of the office staff. Office-level support and encouragement for affinity groups can help professionals from various backgrounds develop and thrive. Purposeful mentoring efforts can be instrumental in establishing tone and instilling a sense of belonging among staff members. Office-level efforts to promote and value perspectives from different groups within an office can enhance a sense of respect and belonging, leading to greater work satisfaction, retention, and quality.

Accounting firms continue to invest significant resources in diversity initiatives related to recruiting, retention, and promotion. Although there are limitations to the proxies used in CLSTZ, the findings emphasize the importance of having a diverse group of audit partners in terms of gender and ethnicity in the audit practice of an office. The results also highlight the economic value of promoting diversity at the office level.

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