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Performance feedback in the audit environment: A review and synthesis of research on the behavioral effects[☆]



Lindsay M. Andiola^{*}

Bentley University, United States

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ABSTRACT

This paper synthesizes the extant feedback literature, focusing on how feedback affects an auditor's learning, performance, and motivation. Performance feedback is an important component in the auditing environment for ensuring quality control and for developing and coaching staff auditors. However, the literature on feedback in the audit environment is fragmented and limited making it difficult to assess its behavioral effects on auditors. This paper has three main objectives. The first is to review some of the influential research in psychology and management to identify key variables and issues that appear to be critical in the study of behavioral consequences of feedback in organizational settings. The second is to review performance feedback research specifically in auditing to identify the areas previously examined and synthesize the findings. The third is to suggest a variety of future research opportunities that may assist in developing an understanding and knowledge of the behavioral effects of feedback on auditors. The literature analysis has significant implications for audit research and practice. In particular, the analysis provides important insights into understanding who, how, and when performance feedback should be given to improve its effectiveness in the audit environment.

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^{*} Correspondence to: Bentley University, Accounting Department, 175 Forest Street, Waltham, MA 02452, United States. Tel.: +1 617 922 3791.

E-mail address: andiola_lind@bentley.edu.

1. Introduction

Performance feedback is important in virtually all organizations as both a developmental and motivational resource. Research demonstrates that performance feedback can aid in learning (Hattie & Timperley, 2007), improve performance (London, 2003), and increase motivation and job satisfaction (Ilgen, Fisher, & Taylor, 1979) of individuals. Also, of particular relevance to auditing, feedback assists in improving judgment and decision making (Bonner, 2008).

Performance feedback is prevalent in the audit environment. It is viewed as both a quality control mechanism (Gibbins & Trotman, 2002; Rich, Solomon, & Trotman, 1997) and a tool in developing and coaching auditors as they progress through the organizational hierarchy (Deloitte LLP, 2012; Westermann, Bedard, & Earley, *in press*). As such, performance feedback may affect both audit quality and the development of audit professionals. However, our knowledge of the effects of feedback on auditor learning, performance, and motivation is fragmented and limited (Bonner, 2008). Audit studies to date focus primarily on knowledge acquisition, with little attention paid to the motivational (or demotivational) and performance changing (both positive and negative) properties of feedback (Bonner, 2008). The purpose of this paper is to synthesize the literature on performance feedback to identify the overall findings to date and suggest future research opportunities.

I accomplish the paper's objective by first reviewing the influential research in psychology and management to identify key variables and issues that appear to be important in the study of the behavioral effects of feedback in organizational settings. Then, I review and synthesize the performance feedback research in auditing to identify the areas previously examined and key findings. Finally, I suggest future research opportunities that may assist in developing an understanding of feedback's behavioral effects on auditors.

Performance feedback is defined in the extant literature in a variety of ways. For purposes of this review, performance feedback is defined as a message conveyed by an external agent(s) that provides information regarding some aspect(s) of a target person's performance (Kluger & DeNisi, 1996). While it is generally assumed that performance feedback has uniformly positive effects (Ilgen et al., 1979; Taylor, Fisher, & Ilgen, 1984), systematic reviews such as Kluger and DeNisi's (1996) meta-analysis indicate that this assumption is not necessarily warranted. In fact, some research suggests performance feedback can have detrimental effects on an individual's learning, motivation, and performance (Ilgen & Davis, 2000). Therefore, it is important in the audit setting where performance feedback is heavily relied upon to understand the factors that affect feedback seeking and use.

There are several key reasons to examine the effects of performance feedback in the audit setting. The first is the importance of performance feedback as a quality control mechanism in audit firms. Feedback, through the workpaper review process, is an imbedded piece of the quality control environment required by auditing standards (Accounting Standards Board (ASB), 2011; Public Company Accounting Oversight Board (PCAOB), 2010b). Supervising auditors devote a significant amount of time to overseeing and providing comments on the work product of subordinate auditors to maintain the overall quality of the audit (Kornberger, Justesen, & Mouritsen, 2011). Psychology and management research suggests that the source of the feedback, the recipient of the feedback and the feedback message all contribute to the likelihood of an individual using the feedback (Ilgen et al., 1979; Kluger & DeNisi, 1996). If auditors do not use the feedback to gain knowledge and improve performance then audit quality is likely to suffer.

Second, the audit environment offers unique opportunities that are not otherwise observable in many work settings, suggesting it is a context ripe to examine certain feedback variables. For example, staff auditors (i.e., associates and seniors associates) often have multiple different supervisors evaluating their performance during the year (Bagley, 2010). In addition, auditors receive formal feedback more frequently when compared to other work environments in which a semi-annual or annual review may be the only structured feedback received by an employee (Hunt, 1995). Staff auditors receive feedback in the form of coaching notes or review comments upon completion of workpapers (i.e., a workpaper review) (Gibbins & Trotman, 2002), they receive feedback upon completion of an audit (i.e., an engagement review), and as part of their annual assessment and goal setting procedures (i.e., an annual review) (Kennedy, 2011). Psychology and management research suggests these variations in feedback source and feedback message are likely to affect individual

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