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## OVERCOMING THE THREE CHALLENGES OF AUDIT LEADERSHIP

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### THE NEED FOR LEADERSHIP IN AUDIT

Gone are the days when the only auditors who had to worry about the effectiveness of their leadership skills were in-charge auditors, audit supervisors, managers and directors, essentially those people who managed the work efforts of others. If you weren't in one of those positions you thankfully could just focus on your workpapers and leave the headaches to someone else. However, thanks to a host of socio-economic changes, the work pace and flow has irrevocably changed, creating a need for auditors at all levels to display leadership skills. In today's competitive business climate, in which pressure to hit the numbers drives organizational behavior and priorities, auditors at every level need to display leadership skills within their organization, not just within the audit department, if they are to produce valued results and bring about the desired change within their organization's internal control system and environment.

Now, you may be thinking, "Ann, I work in a regulated industry. My institution is required to have an audit department. Therefore, I really don't have to worry too much, if at all, about my leadership ability or how much change my work generates within the institution." And, I would suggest that just because an audit function is required, this does not mean that it has to be performed by auditors on the payroll. Let's face it: An audit function can be outsourced. In some organizations, *it already has been outsourced*.

Although the recently enacted Sarbanes Oxley legislation has put internal and external auditing in the spotlight, and has prompted many firms to hire more internal auditors, no job is guaranteed or secure. For this very reason, it is so important to ensure you and your audit results are heading in the right direction. One of the major outputs of leadership is setting direction with regard to the action to be taken. Another output of effective leadership is the ability to achieve results, i.e., getting the internal clients to agree to take action and remedy internal control concerns.

### LEADERSHIP DEFINED

Before discussing the factors that have created the leadership challenge and have made leadership skills *de rigueur* for all auditors, I probably should explain what I mean by leadership. Leadership is the ability to get someone else or a group of people to do what you want, when you want it, the way you want it **because they want to do it**. The last part of the definition is the most critical element. Leadership is not simply about telling people what you want done. You see, you can tell people what to do, and they might do it, but they won't keep doing it, unless you keep telling them. The minute you stop telling is the minute they stop doing. When effective leadership skills are used, people can act without being told what to do because they understand the objective as well as the consequences for non- or under-performance.

Generally, the effectiveness of a leadership style is evaluated by the results it achieves, in much the same way as the results of an audit are assessed by the degree to which internal control problems are addressed by permanent solutions. Assuming that the team has the appropriate skill and knowledge to perform the job, and

the procedures for job execution are defined, the leader's style is ineffective if the leader is unable to bring about the desired results from a group of people.

Leadership effectiveness is affected by three factors: the needs of the people to be led, the nature of the business situation, and the capabilities of the leader. Let's look at each of these factors separately to better understand the challenge of leadership in audit.

## **LEADERSHIP CHALLENGE #1: THE NEEDS OF THE PEOPLE TO BE LED**

It's no surprise that today's workplace is populated with people from four distinctly different generations: The Mature Market (born between 1909 and 1943), The Baby Boomers (born between 1944 and 1964), The Generation Xers (born between 1965 and 1980), and The Millennium Generation (born between 1980 and 2004). Each of these demographic groups brings a distinct set of aspirations and needs to the job. In addition to these demographic differences, each person is an individual, with his or her own unique goals and needs. Therefore, today's leader has to be an orchestra conductor, able to bring out the best performance from each musical section so that the orchestra's results are harmonic and well timed.

The Mature Market, by virtue of age, has the most work experience, and until recently would have been contemplating retirement. Now, the high cost of retirement, the benefits of healthier living, and very full employment in specific labor markets have contributed to prompt members of the Mature Market to remain in the workforce for longer periods of time. It is not unusual for members of the Mature Market to retire from one employer, only to take a part-time or full-time job at another company. This generation, raised in a post-depression economy, generally values security and was raised to accept the corporate hierarchy and deference to seniority.

The Baby Boomers were the first generation raised on a diet of television and mass media and constitute the largest generation in the workforce today. "Downshifters" is the term associated with the subset of Baby Boomers who have decided to seek an alternative to the traditional corporate career aspirations in favor of a lifestyle that is dramatically more simplified and slower paced. This group has noticed that the corporate pyramids have become corporate pancakes. They realize that there are fewer and fewer places available within the senior management ranks and they question competing for these senior management positions because of the personal sacrifice they would have to make. Having forsaken the idea of climbing up the corporate ladder because of the high cost to their personal lives, Downshifters are willing to accept less in pay in order to achieve a new "balance" in their lives and experience the elusive "quality of life".

"Generation Xers" is the term associated with the 50 million Americans who were born between 1965 and 1980. The Generation Xers are the second American generation to be brought up on a steady diet of television and mass media. As an added distinction, Generation Xers were raised with computers, appreciate the speed with which information can be accessed, and are accustomed to the planned obsolescence of products and positions. Many in this group were raised as "latch-key kids", who early on learned to fend for themselves.

Generation Xers have witnessed their parents experience downsizing, right-sizing, resource-balancing and other forms of organizational change. By these examples, they have witnessed the results of blind corporate loyalty and the consequences of putting all one's faith in a single company. Based on these experiences, the work ethic and expectations of many Generation Xers is not surprising. Few feel an overwhelming sense of company loyalty and most do not expect to experience job security. They view themselves as a commodity to be leveraged and sold to the highest bidder. Essentially, they perceive themselves as independent contractors who receive a day's pay for a day's work as part of an employment "contract" which can be severed at any time. (This view, characterized by the slogan, "I'm President of Me, Inc.", initially became popular in the late '70's as a result of the "employment at will" concept.)

The major difference between Generation Xers and Downshiffters is age. The Downshiffters have been in the workforce longer, which makes them a more experienced and seasoned group. Both groups have attempted to climb the corporate ladder only to realize that it has been replaced by a maze of lateral moves. Nonetheless, these groups are concerned with managing their careers and experience feelings of job insecurity. These feelings are particularly strong in industries undergoing consolidation.

The Millennials are just joining the labor force, with many opting to continue their education as a mean of waiting out the current “jobless economic recovery” that has reduced the number of entry level positions. This demographic group was raised on computers, in much the same way the Baby Boomers were raised on television. They are extremely comfortable with technology and change in general. Although they are recipients of their Baby Boomer parents’ largesse, this generation had to face the harsh realities of schoolyard violence and terrorism. Since so few Millennials are currently in the workforce, only time will make it easier to predict this group’s employment proclivities. So far, they seem willing to work and learn.

During the past 20 years, overall employee attitudes towards their employers have changed, creating a challenge for leaders. The following summarizes these changing attitudes.

<i>Then . . .</i>	<i>Now . . .</i>
Get hired by a large firm to enjoy a long-term, stable work environment and terrific benefits.	Get hired by someone who will serve as an effective mentor and show you the ropes.
Once hired, do your best and work your way up the corporate ladder.	Once hired, acquire as many skills as possible that will be needed to leverage your career.
Work hard and you will get promoted.	Work hard to promote yourself and keep your network alive.
Be loyal to the company.	Be loyal to yourself...the company may not be here tomorrow.
Keep your nose to the grindstone and your ear to the ground.	Keep your eyes, ears and options open ‘cause you never know when a better job will become available some place else.

To deal with this leadership challenge, it’s helpful to understand what Downshiffters and Generation Xers want from their employers. Both Downshiffters and Generation Xers are quite vocal about their likes and dislikes. They want to be consulted and asked for input concerning decisions that will affect their jobs. Generation Xers are more vocal in general than Downshiffters because they have no fear of professional mortality. They are young and will have to “work for the rest of their lives”, a time period which seems to them to be almost infinite in length. Both groups value genuineness and honesty from their employer and are extremely interested in WIIFM (What’s In It For Me?). Business plans and strategies that lack an apparent “personal” benefit are perceived as unappealing and not particularly motivating. In particular, the Generation Xers prefer simple, straightforward and frequent communication. They would rather receive short, simple messages than an inundation of information.

Although both groups enjoy the option of working flexible hours, non-traditional work arrangements are more important to Downshiffters than Generation Xers. Since Downshiffters have consciously eschewed upward

mobility for more balance in their lives, they are motivated by work situations that accommodate their lifestyles.

Both groups want to be judged by results, not hours spent at their desk. This view makes incentive compensation plans attractive to both groups, providing that the terms of the compensation, i.e., the performance objectives, are clearly communicated. Generation Xers and Downshifter value employers that provide on-going training, continuing education, and skill development. Generation Xers also seek managers who are concerned mentors, helping them to gain new job skills.

## **LEADERSHIP CHALLENGE #2: THE NATURE OF THE BUSINESS SITUATION**

Twenty years ago, workers at all levels were promised that increased use of technology would lead to more leisure time. Then, the average manager was assigned 20 different projects or tasks in addition to “the regular work” of managing their department’s performance. Recent studies have shown that today’s worker, who is now technologically wired for sound with laptops, e-mail, palm pilots, cell phones and beepers, is actually working longer hours. And, the average manager’s project workload has doubled, leaving precious little time for actual department management. Essentially, today’s manager is expected to be an individual contributor, thereby creating an inherent leadership challenge. Let’s face it: It takes time to lead and when this time is consumed by other deadlines and deliverables, the leadership activities take a backseat.

Additionally, the increase in technology has actually spawned new problems and risks, like computer viruses and hacking, ones that were either of minimal concern or non-existent years ago. Thanks to increased technology, business now occurs 24 hours a day, every day, every where, creating smaller windows of marketing opportunity and increasing the inherent risk in every business decision.

According to the American Telecommuting Association, a Washington, D.C. based group that promotes telecommuting, easy and affordable access to technology combined with a groundswell of requests from employees has enabled millions to telecommute.

While the importance of proper planning continues to be touted as important, the reality is that many institutions have slipped into a mode of “ready, fire, aim” as they scramble to meet aggressive deadlines. To address increasingly complex business situations, companies have adopted and expanded the use of teamwork. Some of these teams are permanent in nature and purpose. Others are created on an ad hoc basis to address a specific situation. Geographically dispersed organizations have created global virtual teams. The virtual team members live and work in far flung cities and use e-mail and web conferencing as the primary communication vehicle, supplemented by periodic group teleconferences and videoconferences. Financial considerations prevent these geographically dispersed teams to meet in person on a frequently basis.

Additionally, team leadership is now rotational, with the leadership position bestowed for a variety of reasons including technical expertise and schedule availability. In some cases, the nominal team leader may be “outranked” by many of the team members in terms of job title and number of years of work experience.

In an effort to complete the projects on a burgeoning “to do” list, these “leaders” endeavor to scale back the scope of projects, making them more manageable. Within an audit context, this practice can have serious and deleterious results. Instead of addressing the root cause of a risk exposure or control breakdown, the project team will end up addressing a “triage” or temporary solution, which will mean that a repeat audit concern will be identified in the future. While the auditors are not responsible for implementing the corrective action plans, they do have a responsibility to use best efforts to ensure that the root cause of their audit concerns are identified and addressed. Additionally, auditors have a responsibility to lead their internal clients to the conclusion that the root cause should be addressed.

## LEADERSHIP CHALLENGE #3: THE CAPABILITIES OF THE LEADER

Being able to diagnose the needs of the people to be led and to understand the demands of the business situation are not enough to be an effective leader. The effectiveness and talent of the leader is equally important. Probably the easiest way to see if you have leadership skills is to turn around and see if anyone is following you. If there's no one behind you, the chances are that you're not leading --- even if you have a management title. Effective leaders see opportunities and problems that others do not see, translate their observations into an organizational vision, communicate this vision in terms that are meaningful to the group being led, and persevere to achieve results. In order to be able to do these things, leaders must have skill in planning, persuasion and delegation. Of all of these leadership behaviors, perhaps the most vital one is having an understandable and compelling vision. Without the vision, there is no long-term direction for the people to take. Without vision, work becomes a series of unending and unrelated tasks that take up time, but produce no measurable long-term change or result.

One of the challenges in leadership today is that the team leaders learn project management, delegation, and leadership skills on the job. Many receive their graduate degrees from the School of Hard Knocks. The dearth of leadership and other skills is aggravated by the diversity of the team's composition. Today, team members may be all members of the same department or they may be on loan from a variety of disparate areas, unified because each member has a particular area of expertise needed to accomplish the team goal. One thing is for certain: In today's fast-paced climate, none of the team members have adequate time to allocate to the project or assignment. This means that the leadership challenge is also figuring out how to make sure that each team member is adequately engaged and motivated to complete his or her part of the assignment.

Today, a leader's ability is also thwarted by the needs to manage a highly mobile, global audit team, whose members are out on the road for periods of time. With the growing popularity of telecommuting and "hotel-ing", the leader may not have the "luxury" of meeting in person with team members and may have to rely on the telephone and e-mail as the primary communication methods for giving and getting feedback. Without the visual cues that are ever-present during face-to-face conversations, the risk of miscommunication and misunderstandings increase. Therefore, today's leaders must be very skilled communicators, able to convey the same message in a variety of ways until it is understood.

The challenge of leadership in audit increases as audit departments expand their service line from core audit services to include advisory services, like advising new systems development teams. Now, auditors at all levels have to be able to persuade others to achieve the team's objective. Every auditor needs to be able to continually re-assert his or her qualifications to perform in a more consultative role.

## SIX ACTIONS FOR ADDRESSING THE LEADERSHIP IN AUDIT

In an audit context, effective leadership translates in setting directions for an audit department that are appropriate given the institution's business goals and external market demands as well as achieving measurable results. Over the past 10 years, the challenge of leadership within internal audit has increased, with no signs of abatement. This challenge has increased recently as a result of the Sarbanes Oxley Act , which has effectively made each manager an auditor, responsible for testing the effectiveness of controls over financial reporting. Now, more than ever before, auditors must display leadership and vision. Savvy auditors at all levels will take the following six critical actions to hone their leadership styles:

- Action 1.** Focus on the external business environment, not just the internal one, to identify important trends affecting the business' future performance. Businesses do not exist in vacuums, but are highly affected by external events and trends. You need to be conversant in these market trends, if you are to be taken seriously by your client.

- Action 2.** Recognize that leadership relies more on skill in visioning, communication and persuasion than a job title. All managers are not leaders and all leaders are not managers. What is your vision of the audit function? Is it one that will be compelling to your clients? To your audit team?
- Action 3.** Consider the effects of recommendations in holistic terms, i.e., the affect on employees' lifestyles as well as the bottom-line. Today's complex business situations are impervious to simple, one-dimensional solutions. How innovative are your recommendations? How realistic are your recommendations given the business priorities and budgets?
- Action 4.** Take the time to hone project management, delegation, and team building skills that will be effective in a cross-functional team environment. How effective are you at building consensus, influencing others' behavior and estimating resource requirements?
- Action 5.** Perform root cause analysis as a regular part of completing audit assignments. The simplest way to do this is to ask "Why" three to five times, until you determine what needs to be fixed so the problem will not recur.
- Action 6.** Learn how to convey the same message in a variety of ways, persevering until client understanding is reached. Remember that perception is reality for the perceiver and that the burden of communicating rests with the communicator. If you're not getting the results you expected, say your message again in another way.

Although these actions will not guarantee that you will win a leadership award, they will help you ensure that the next time you turn around, there will be someone following you.

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