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# How does auditors' work stress affect audit quality? Empirical evidence from the Chinese stock market

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## ABSTRACT

With reference to the Job Demands–Control Model, we empirically examine the effect of auditors' work stress on audit quality using a sample of Chinese A-share listed companies and their signature auditors from 2009 to 2013. The results show that (1) there is generally no pervasive deterioration in audit quality resulting from auditors' work stress; (2) there is a significant negative association between work stress and audit quality in the initial audits of new clients; and (3) the perception of work stress depends on auditors' individual characteristics. Auditors from international audit firms and those in the role of partner respond more strongly to work stress than industry experts. Auditors tend to react more intensively when dealing with state-owned companies. We suggest that audit firms attach more importance to auditors' work stress and rationalize their allocation of audit resources to ensure high audit quality.

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## 1. Introduction

Work stress has been referred to as an “occupational flu” in this era of the knowledge-driven economy (Lu, 2006). Under the mechanism of market competition, various professionals such as lawyers, doctors and executives all face some degree of work stress, as do auditors, who enjoy the reputation of the economic police. In the US, the Public Company Accounting Oversight Board has expressed concern that audit quality might be compromised due to auditors' workload or time pressure.<sup>1</sup> Auditors in China suffer from pervasive work

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stress resulting from time limits, human resources, liability risks, etc. Work stress peaks in the busy season, from January to February, when auditors' work schedules average more than 10 h per day. It is therefore logical to question (1) whether and how pervasive work stress affects auditors' decision-making and audit quality; and (2) whether auditors' response to work stress supports conflict theory or incentive theory, or both?

Despite its widespread existence in audit practice, academic studies concerning auditors' work stress are rare. The unavailability of large samples and the consequent absence of empirical evidence mean that a majority of studies are based on questionnaire surveys or experimental studies, and there is still no consensus among researchers (Jones et al., 2010; Liu and Zhang, 2008). Fortunately, we have access to the mandatorily disclosed information on Chinese listed companies' signature auditors required by the China Securities Regulatory Commission (CSRC). Therefore, in this paper we empirically examine the effects of auditors' individual work stress on audit quality using large samples of listed companies and their corresponding signature auditors in the Chinese A-share market from 2009 to 2013, following the framework of the Job Demands–Control model proposed by Karasek (1979). We hope that our work will help to clarify the mechanism by which work stress affects audit behavior and the coping system regarding the stress response.

Specifically, the primary originalities and contributions of this paper are as follows: (1) Despite the fact that auditors' work stress is familiar to us in practice, academic studies concerning the issue are seldom addressed. This study helps to fill this gap by offering a logical argument and empirical evidence in the context of the Chinese stock market. (2) Our conclusion, which is more systematic than those in the literature based solely on the analysis of work demands (stressors), is drawn from a comprehensive study of the combined effects of work demands and work control, while taking into account the particular demands of auditing. (3) The paper enriches related studies on auditors' work stress from a psychological perspective by taking into consideration individual differences in perception, thus leading to the finding that responses to work stress vary significantly from person to person.

## 2. Literature review

Since the early twentieth century, with the development of industrialization and informatization, work stress has become an important issue in the fields of psychology, behavioral science and sociology. There has been widespread discussion regarding the definition of work stress, its influence mechanism and coping strategies, resulting in a series of outstanding academic achievements represented by Stimulation Theory, Response Theory (Selye, 1976) and Interaction Theory (Karasek, 1979), among others. The above studies indicate that individual responses to work stress can affect physical and mental health, work quality and even organizational performance through the stimulus and response system (Janssen, 2001; Lu et al., 2010). However, the effect of work stress on audit quality is seldom addressed in the field of auditing studies.

First, among the diagnoses and experimental studies, Soobaroyen and Chengabroyan (2006) and Agoglia et al. (2010) argue that stress due to work or time budgeting tends to impair audit efficiency and quality. Liu (2008) claims that the time pressure of audit engagements could impede the proper implementation of audit procedures and damage audit quality, according to a survey of a nationwide audit firm. Stress due to time budgeting or deadlines also tends to aggravate auditors' perceived pressure (Margheim et al., 2011). Second, in terms of empirical studies, López and Peters (2012) argue that workloads can damage audit quality at the level of the audit firm. A few scholars focusing on "busyness" (which differs from work stress) find it harmful to audit quality (e.g., Sundgren and Svanström, 2014), while others do not. For example, Goodwin and Wu (2016) suggest that the relationship between auditor busyness and audit quality depends on whether the former is in equilibrium, yet Choo (1986) finds an inverse U-shaped relation between the two. Choo's work is supported by Huang and Bai (2014), who draw a similar conclusion from the results of a questionnaire survey involving several audit firms in China's Nanjing, Suzhou and other regions. However, the universality of that conclusion is still under question given the limited representativeness of the study sample.

In the past 20 years, scholars have begun to consider auditors' work stress. However, the academic results are not fruitful, nor are the findings consistent. What is more, the literature discussing the effects of work stress on audit performance and quality is limited by a lack of reliability and generalizability, because most studies use experimental or survey designs. We are very fortunate that the accessibility of personal information on the auditors of Chinese listed companies, the market competition environment and the centralized auditing of

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