Pressures on Audit Partner’s Negotiation Strategy and Decision Making

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Abstract

In our experiment with highly experienced auditors, we manipulate, as well as measure, different pressures on auditors from client management and the audit firm’s management control systems (MCS). We investigate their effects on auditor decision making about the acceptability of aggressive client preferred accounting and on the strategies the auditor would employ in negotiating that accounting with client management. We find that auditors generally resist relatively more explicit client pressure, but we also find that auditors are more likely to agree to such aggressive accounting when client pressure is subtle or when the auditor is reminded of the audit firm’s use of customer relationship management (CRM) tools (e.g. having client management assess audit team service quality) as part of the audit firm’s MCS. These findings imply that client management, if subtle, can pressure auditors into accepting the accounting management wants. Further, audit firms can act as enablers for such pressure through use of CRM tools that are not designed for professional services with explicit conflicts of interests between the service provider and the purchaser of the service.

Keywords: Client pressure; customer relationship management; management control systems; motivated reasoning; negotiation; accounting policy acceptance
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I. Introduction

Pressure is part of the life of any audit partner and this has long been recognized both professionally (e.g., Mautz and Sharaf 1961) and academically (e.g., Ferris 1977). Pressures on the auditor can arise from the client’s management (e.g., Windsor and Ashkanasy 1995) and from the audit firm’s own management control system (Dirsmith et al. 1997; Lord and DeZoort 2001) among other sources (see DeZoort and Lord 1997 for a review of early research on pressure). In this study, we examine the interaction of these two sets of pressures on highly experienced auditors’ judgments about the acceptability of a client’s proposed aggressive accounting policy. We also investigate the means by which auditors seek to obtain agreement with client management about appropriate accounting.

We start from the premise that an auditor’s education and training including professional auditing standards, ethical standards and quality control processes are mainly targeted at explicit client challenges to the exercise of auditor’s independent judgment about the appropriateness of client accounting. The auditor recognizes such an explicit challenge when client management makes salient the fact that continued auditor tenure with the client is dependent on management’s satisfaction with the auditor.¹ However, in the absence of explicit challenges to auditor professionalism we suggest that the auditor naturally views the world through the lens of a “motivated reasoner” (e.g., Kunda 1990; Kadous et al. 2003) given that the auditor is also a business person with strong commercial interests (e.g., Gendron and Spira 2010). Hence, when the auditor as a motivated reasoner is not explicitly pressured by client management to accept

¹ We recognize that the audit committee as the client is an attempt by regulators to reduce the ability of management to exercise such a threat but research suggests that this has been far from successful except for the period immediately around the passage of SOX (e.g., Cohen et al. 2010).
management’s preferred accounting, the auditor will naturally interpret “facts” of the situation to be relatively more consistent with client management’s interpretation (e.g., Hackenbrack and Nelson 1996) leading to a greater likelihood of acceptance of the client’s preferred accounting (e.g., Salterio and Koonce 1997).

We expect that the predicted auditor tendency to interpret the situation as management does is exacerbated by audit firms who implement management control systems (MCS) based on the percepts of customer relationship management (CRM) (e.g., Maister 1993). CRM comprises such tools as 360-degree evaluations of audit team performance (Stumpf 2007) that include evaluations of the audit team by client management. Professional service firms, including audit firms, have increasingly employed CRM tools over the past twenty years (Sweeney et al. 2011). We posit that this pressure from the audit firm’s choice to implement CRM tools as part of its MCS reinforces the auditor’s natural tendency (Kadous et al. 2003) to be a motivated reasoner who unconsciously favours client management’s factual interpretation leading to an increased likelihood that the auditor will permit more aggressive client preferred accounting.

We carry out an experiment with highly experienced auditors where we manipulate client management pressure. In one condition, client management explicitly attempts to pressure the auditor into agreement with client management’s proposed aggressive accounting by linking continued tenure to acceptance of the management’s preferred accounting. In the other condition, the client management facilitates the auditor’s perceptions of the jointness of client management and auditor interests to obtain management’s desired accounting. We also manipulate pressures that are internal to the audit firm by manipulating whether the auditor is reminded of the audit firm’s use of CRM tools as part of its MCS. Beyond a general reminder to the auditor about their CRM training, we specifically remind the auditor that client management
completes audit team service quality surveys at the end of the engagement. Recognizing, as prior researchers have done (Kadous et al. 2003; Kadous et al. 2008), that interpreting stimuli intended to activate motivated reasoning can be responded to in somewhat idiosyncratic fashion by the recipient, we also measure the two manipulated factors. We label the measured constructs as perceived client pressure and the relative affinity for the client needs (CRM training is designed to increase connectedness between auditor and client hence the affinity measure).

Our main dependent variables are the decision of the auditor to accept the client’s proposed accounting and the minimum amount of adjustment (if any) that the auditor requires for rendering an unqualified audit opinion on the financial statements. We also measure the approaches used by the auditor to obtain those outcomes, that is, the tactics that the auditor is likely to use in negotiating any adjustments with client management (see Gibbins et al. 2010).

We find that explicit client pressure to accept the client’s proposed aggressive accounting without reminder of audit firm’s use of CRM as part of its MCS results in auditors being more likely to reject the client’s preferred accounting. Implicit client pressure and reminders of the audit firm’s use of CRM measures leads to a greater willingness to accept the client’s proposed accounting. Consistent with prior researchers (e.g., Kadous et al. 2003) we find that our results are even stronger when we allow for individual interpretation of the experimental stimuli via measuring the auditor’s assessment of relative client pressure and their affinity for the client’s needs. Specifically, in a path analysis embedded in a structural equations model (SEM), we find that the higher the perceived client pressure the less likely the auditor is to use concessionary negotiation tactics and the greater the auditor requested adjustment to bring the financial statements into conformity with GAAP. We also find that a greater auditor affinity for the
client’s needs results in an increase in the willingness to use concessionary and compromising tactics. Indirect effects via the auditor’s intended negotiation tactics reinforce these direct effects.

The remainder of this paper is as follows. Section II discusses the role of pressure in the audit environment on audit decision making including the role of client pressure and the pressures from audit firm MCS. This discussion leads to our hypotheses. Section III presents the research design detailing both the experimental manipulations and measurements taken to examine our case setting. Section IV presents our results in two parts, first the experimental results and second the results based on a measurement model approach that allows for individual interpretation of experimental stimuli. Section V concludes with a discussion of the results and their implications for audit practice and future research.

II. Theory and Context

1. Motivated reasoning

In her seminal work in social psychology, Kunda (1990) reasoned that individuals attempt to reconcile their beliefs about themselves with self-interested based decision-making. Kunda (1990) suggests that people motivated to arrive at a particular conclusion attempt to be rational and to construct a justification for their desired conclusion that would persuade a “dispassionate observer.” Decision makers draw the desired conclusion only if they can muster up the evidence necessary to support it (Darley and Gross 1983). In other words, they maintain an "illusion of objectivity" (Kruglanski 1980; Pyszczynski and Greenberg 1987). Notice that Kunda is not saying that motivated reasoners set out to deliberately distort the evidence. But that Kunda argues that in the presence of a directional goal, decision makers are motivated to assess the
evidence to derive a conclusion that they believe would persuade a “dispassionate observer” that
their conclusion in favour of their self-interest based directional goal is supportable.

Hence, when factual information about a decision allows some room for ambiguity of
interpretation and when the person has acquired a directional goal that is consistent with their
self-interests they concentrate on the facts of the situation that allow them to take the decisions
that are consistent with achieving the desired outcome. Rather than viewing decision makers as
deliberating and choosing to take actions in their own self-interests, Kunda (1990) models
motivated reasoners as selectively processing information about the setting to make decisions
that are consistent with their self-interested goal achievement and that can be justified to third
parties.

There is considerable evidence in audit research that auditors act as motivated reasoners
(e.g., Hackenbrack and Nelson 1996; Wilks 2002; Blay 2005; Peecher et al. 2010). Even the
interpretation of the words of accounting standards can be employed by auditors in determining
that a set of accounting facts is consistent with the client management’s desired accounting
(Hackenbrack and Nelson 1996) allowing the auditor to achieve the goal of client satisfaction
and retention of the audit engagement.\(^2\) Kadous et al. (2003) shows that this distortion of
information also generalizes to assessing audit evidence as it allows auditors to be consistent
with beliefs about themselves and to achieve goals that are in their self-interest.\(^3\) Blay (2005)
shows that motivated reasoning occurs in the domain of auditors assessing the need for a “going

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\(^2\) This is just a sample of the evidence that audit researchers have collected that suggest that auditors are motivated
reasoners. Furthermore, extensive research in financial accounting (e.g., Graham, Harvey and Rajgopal, 2005)
demonstrates that in the vast majority of cases management has a clear directional goal that requires accelerating
revenues and delaying expenses.

\(^3\) Researchers have shown that when auditors know in advance what their superiors in the audit firm desire as a
conclusion from an audit procedure or evidence evaluation they will interpret the evidence to support that unless it
results in a patently unsupportable result (Wilks 2002; Peecher et al. 2010).
concern” audit opinions. Blay finds that when the auditor perceives there exists an implicit threat of losing the audit engagement, the auditor interprets the facts related to a going concern issue more similar to management interpretation those facts then when the auditor does not face such an implicit threat.

Auditor motivations and the circumstances when they are invoked are not as clear-cut as those found in many social psychology settings (see Kunda 1999). As we examine in the next section, auditors have what we label as professional motivations. That is, they have accounting and auditing expertise, ethical, professional and reputational motivations as they have labored long and hard to be recognized as expert accountants (Barton 2005; Bonner and Pennington 1991; Libby and Luft 1993; Martinov-Bennie and Pflugrath 2009). Auditors also have commercial motivations given that auditors must also act as business persons who have to make a profit on their audit engagements and are evaluated by their audit firm based on the profitability of their work (see Bierstaker et al. 2006 for a review of the literature on the effects of audit firm commercial activities on the audit).

2. Auditor’s professional versus commercial motivations

Sociological based research on the organizational context of auditing (e.g., Suddaby et al. 2009) provides the basis for understanding the auditor’s motivations in more detail. It should be emphasized that the commercial and professional motivations co-exist in almost all auditors albeit which motivation will be dominant in any given situation is unclear. Professional motivations include beliefs that the exercise of auditors’ expertise should lead to the substance

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4 It should be noted that economic arguments can be developed that are consistent with the two sets of motivation, for example, the value of long run reputation formation can be used to support the professional motivation (e.g., Mayhew 2001) and the value of short term profit maximization by means of client retention (e.g. Hackenbrack and Hogan 2005) can be used to support the commercial motivation. It is beyond the scope of this paper to reconcile these two theoretical approaches albeit we do note that at a high level they appear to be congruent with each other.
rather than the form of the economic events being recorded (e.g., Salterio and Koonce 1997); that the auditor is a member of a profession with a strong set of ethics embodied in professional codes of conduct that include the requirement to act in the public interest (Lander et al. 2013); and that the auditor considers the ethos of the auditor as a self-governing professional (Gendron and Spira 2010; Gendron et al. 2006). When this motivation is dominant, auditors are sensitive to professional norms that include the desire to be seen as an independent arbiter of GAAP and a protector of the public interest (Suddaby et al. 2009).

When commercial motivations dominate, auditors focus on themselves being businesspeople (e.g., Bierstaker et al. 2006) and on the fact that the audit firm has to make a profit realizing that the success of their firm is intertwined with the success of the audit client (Suddaby et al. 2009). Hence, when commercial motivations are dominant in an auditor’s mind, the auditor seeks the means to satisfy the client’s expressed desires as a way of retaining the relationship (Chang and Hwang 2003) that provides the basis for audit partner and audit firm profitability (Trompeter 1994).

Generally, no auditor explicitly rejects their professional motivations in favour of their commercial ones, at least to researchers (Suddaby et al. 2009; Lander et al. 2013). Yet research consistently shows that auditors act in ways that are sometimes more consistent with professional motivations and at other times more consistent with commercial motives (e.g., Suddaby et al. 2009; Lander et al. 2013). It is posited by researchers that it is the organizational context and the facts of the specific setting that are believed to trigger the dominance of one motivation over the other in a given decision context (e.g., Suddaby et al. 2009). Consistent with the motivated reasoning literature, researchers generally believe that this is not a conscious choice but rather an
unconscious process that gives priority to one of these conflicting motivations or interests based on the specifics of the setting (Bazerman et al. 2002).

3. Auditor’s conflicting interests or motivations

Auditors are required by law and professional codes of conduct to be independent from the company they audit, but they are at the same time hired, fired and compensated by the audit client (be it the management or the board including the board’s audit committee) (e.g., Gul et al. 2007; Ye et al. 2011). This institutional structure results in an auditor having a “fundamental conflict created by the auditor-client relationship” (PCAOB 2011, pp. 4-5) between their professional obligation to remain independent and their commercial obligation to retain clients so as to make a profit for their firm (Gendron 2001, 2002; Suddaby et al. 2009).

Bazerman and co-authors in a series of papers argue that auditors are not able to fulfill the professional and commercial role at the same time. As a consequence, they claim that “true” auditor independence and objectivity is not possible as long as auditors are paid by the client (Bazerman et al. 1997; Bazerman et al. 2002; Moore et al. 2010; Bazerman et al. 2006; Bazerman and Moore 2011). While auditors have to comply with detailed independence rules and standards (International Federation of Accountants 2010, Sect. 290, especially 290.100 seq.; PCAOB 2002) that results in them being deemed to be “independent” of the client for regulatory purposes, “true” auditor independence (denoted hereafter as “objectivity”), in the sense of being fully objective about the correspondence between client accounting and GAAP, is impossible.

Bazerman and colleagues argue that the distortion of the judgment process happens through psychological processes including motivated reasoning as discussed in Kunda (1990). Bazerman et al. (2006) argue that these psychological processes happen unconsciously; hence, regulatory initiatives on independence rules intended to affect auditors’ conscious choices to be
more objective will have a limited impact on actual auditor behaviour given the disconnect of independence rules from the day-to-day work of interpreting the client’s transactions and its proposed accounting. Moore et al. (2005, p. 9) suggest that auditor objectivity is enhanced when there is an increase in the auditors’ conscious awareness of their conflicts of interest with client management.

4. Triggering audit partner motivations

Based on our motivated reasoning analysis of the context in which the auditor works with both professional and commercial motivations present and potentially active, we posit, consistent with Suddaby et al. (2009), that certain environmental stimuli will trigger one or the other of the two motivations and that auditors will unconsciously assess the situation in light of the dominant motivation. Auditor education and training emphasises the professional role of the auditors and they have extensive preparation to enable them to deal with direct client challenges to their independence (e.g., Knechel et al. 2007, p. 746-748). Thus, the auditors’ professional motivations are more likely to be dominant when client management explicitly challenges the auditors’ self-image of themselves as being a competent professional (Gendron and Spira 2010). For example, by explicitly linking success of the client business plans with future profitable audit engagements if the auditor agrees with client management’s aggressive accounting.5

Client management can emphasize the jointness of their interests and those of the auditor in such a way that the auditors can implicitly pressure themselves by focusing on the future profitability of clients should the client’s business plans come to fruition. Given that audit firms

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5 Our argument in a loose manner is consistent with some theories of moral behavior. For example, Rest’s model (1983) emphasizes that the first important component of moral behaviour is to recognize that a situation involves a moral issue. This recognition of the moral dimension of an issue can be compared to the heightened awareness that conflicts of interests are present in our setting.
have increasingly adopted MCS and philosophies that emphasize the commercial side of the business (e.g., Dirsmith et al. 1997) as a means to motivate partners to “grow the business” the audit partners’ work environment can reinforce the partners’ commercial motivations. For example, audit firms refer to themselves continually as professional service firms (e.g., Sweeney et al. 2011) and emphasize commercial values via such means teaching partners about client relationship management (CRM) tactics and tools (Cooper and Robson 2006). A common means of implementing CRM that is broadly reported to be used by professional service firms including audit firms (e.g., Sweeney et al. 2011; Reid 2008; Öhman et al. 2012) are 360-degree evaluations where client management is surveyed as to their satisfaction with the audit team’s service delivery. Such surveys become part of the MCS when they are embedded in the compensation and promotion policies of firms that are employed to evaluate partners (e.g., Sieg et al. 2012). When commercial motivations dominate the auditor’s mindset, the auditor seeks the means to satisfy the client’s professed desires and hence, whenever possible and defensible, interprets the “facts of the situation” to allow the client management to have the accounting they prefer (see Nelson et al. 2002 on waived proposed material audit adjustments). Further the stronger the identification of the auditor with the audit firm and audit client, the more likely the commercial motivation will dominate (Kornberger et al. 2011; Lord and DeZoort 2001).

In summary, we posit that the auditor’s professional motivations are more likely to be dominant when the client explicitly challenges the auditor’s professional identity leading auditors to be more skeptical about a client’s desired accounting and being tougher in negotiations with client management. In contrast, when the client preferences are expressed implicitly within the joint interests of the auditor and client management (e.g., Peecher et al. 2010) and lacking any explicit challenge to their professional self-image, the auditor naturally
conforms to the dominant logic of business, that is, commercial motivation (e.g., Guiral et al. 2011). Under that motivation the auditor is unconsciously going to interpret “the facts” to the greatest extent that is possible consistent with the accounting preferred by the client and any negotiations with client management over the accounting will feature tactics that are more conceding and compromising from the auditor’s initial position.

III. Hypotheses Development

In light of the above analysis, we are now in a position to develop our hypotheses that we test in our setting. We start by considering two main sources of pressure on the audit partner, client pressure on the audit partner to accept the client’s preferred accounting and audit firm pressure via its MCS on the audit partner to develop and grow the business profitability.

1. Client pressure

The concept of explicit client pressure on auditors raises images of client management clearly trying to intimidate auditors, e.g., by threatening them with future termination of the relationship (Teoh 1992). Yet we know from field based negotiation research that such threats are not generally part of auditor-client management negotiations (Gibbins et al. 2001; Gibbins et al. 2007). However, clients can bring explicit pressure to bear without intimidation. For example, we consider explicit pressure as the client management insisting on leniency in interpreting GAAP for this one period and explicitly noting that the audit firm will have future higher fees if the client management’s business plans are brought to fruition with the aid of this more lenient accounting.

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6 We verified that this assumption is valid in Germany as part of our pretesting of the instrument. Pretest respondents pointed out that such explicit threats were only employed in relationships where the parties verged on parting and were not part of the everyday “give and take” of accounting negotiations.
When auditors feel their professionalism is being directly challenged by client management they can rely on professional standards providing guidance on how to safeguard auditor independence and how to ensure sufficient professional scepticism (International Federation of Accountants 2010, Sect. 200). These standards provide clear guidance as to how auditors should behave when clients engage in such explicit pressure. Indeed almost all auditing textbooks have sample cases in their ethics chapters that clearly highlight the auditor’s expected response in such conditions (e.g., Knechel et al. 2007, pp. 746-748). Therefore, auditors are more likely to withstand explicit pressure.

Consequently, auditors in these circumstances become focused on demonstrating that they are independent arbiters of GAAP appropriateness hence they are motivated in their information acquisition to be balanced so that an independent opinion can be rendered. Thus, in the face of aggressive client management proposed accounting, we expect that relatively more explicit client pressure will increase the auditors’ propensity to reject client-preferred aggressive accounting methods and to adopt negotiation approaches that are more contending in orientation rather than compromising or conceding as a means to achieve this goal.

Conversely, client managers may attempt to influence the auditors by facilitating the auditor’s focus on how both management’s and the auditor’s interests align with each other. Client managers hint at the mutuality of the interests that the auditor and client management share in finding a solution that is acceptable to the client (McCracken et al. 2008). Here the client is exerting a more subtle pressure by emphasising that the adoption of the client’s preferred accounting is a “win-win” for both parties via facilitating, the auditor to infer that their audit firm will continue the profitable relationship with the client into the future (e.g., Hatfield et al. 2008). In motivated reasoning terms the aim of client management’s more subtle implicit
pressure is to raise the auditor’s awareness of the client’s and the auditor’s joint interest facilitating the auditor’s acquisition of the directional goal to aid the client in achieving the client’s desired business outcomes. This auditor self-interest based goal is achieved through the auditor acquiring and interpreting the “facts” in a way that confirms the accounting that the client prefers can be considered as acceptable.\(^7\)

**2. Within audit firm pressure**

It has been well documented over the past thirty years that audit firms have increasingly been under fee pressure (Schneider et al. 2006) due to increased competition (Bierstaker et al. 2006) and, therefore, have moved strongly into practice management modes that place increasing pressure on audit partners to retain profitable clients (Sieg et al. 2012; Chang and Hwang 2003). Audit firms are increasingly relying on relationship marketing to achieve their growth and profitability goals (Ahmed and Hopson 1990; Mangos et al. 1995; Hayes 2006) despite the skepticism of some experts in the area concerning its appropriateness (Maister 2002).

Relationship marketing is defined as attracting, developing, and retaining customer relationships through delivering services that meet and exceed client expectations resulting in increased client loyalty to the service provider (Berry 1983).

Achieving the better client relationships according to relationship marketing theory demands the development of commitment and trust (Morgan and Hunt 1994). An important factor for achieving commitment is the perceived service quality by the client. Dimensions of service quality that have been studied in the relationship marketing literature include reliability, responsiveness, competence, approachability, courtesy, communication, credibility, and knowing

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\(^7\) Proof that some auditors exhibit the goal of “seeing things how management sees them” can be found in PCAOB Concept Release (PCAOB 2011, p. 7) where the PCAOB observes that “audit partners and senior managers of Firm X may have a bias towards accepting management’s perspective, rather than developing an independent view or challenging management’s conclusions.”
the customer (Parasuraman et al. 1985). Providing high service quality requires intimate knowledge of clients’ needs. This deep knowledge can be gained when the audit personnel providing the service identify highly with the client needs. Application of relationship marketing percepts to auditing teaches that by focusing on client service needs auditors can achieve their own goals of building a profitable audit practice.

Now it may be argued that recent efforts to have the audit committee of public companies be responsible for hiring, firing and compensating the auditor moves them into the role of the “client.” However, research shows that the rarely seen audit committee has a diversity of goals and whereas auditors may pay “lip service” to the audit committee as client (e.g., Cohen et al. 2010) the day-to-day ever-present client is the management of the firm. Hence, the “client” that evaluates the relationship and compensates the auditor is the management de facto (Cohen et al. 2010) even though de jure it might well be the audit committee. Research also suggests that audit committees follow management preferences in these matters, even in the areas of hiring and firing let alone compensation (e.g., Fiolleau et al. 2013).

There is evidence that supports that CRM is used as much in audit firms as in other professional services firms which means that CRM must be incorporated as part of the MCS under the mantra that what get measured and compensated matters (Reid 2008; Sweeney et al. 2011). In an early study focused on audit firms and CRM-like service approaches De Ruyter and Wetzels (1999) found that audit client managers who perceive auditor service quality to be high tend to develop a strong commitment to the auditor-client relationship and are less likely to terminate that relationship. Further research provides evidence that service quality and commitment increases clients managers loyalty to the continuance of the auditor-client relationship and leads them to recommend the auditor’s audit and consulting services to others in
the market for professional services (Woodside et al. 1992; Kuenzel and Krolikowska 2008).

Thus, it appears that audit firm management is correct in their assumption that implementing CRM practices has a positive outcome for the audit firm as suggested by CRM researchers (Reid 2008; Sweeney et al. 2011).

Further, interview-based evidence shows that audit partners are thrust into the role of relationship managers in order to keep the client happy (McCracken et al. 2008). Indeed, interview evidence suggests that audit partners get replaced by the audit firm if the client management is “unhappy” with the audit partner (McCracken et al. 2008) or that the client will put the audit out for tender if an incumbent audit firm changes an audit engagement partner to someone not to their “liking” (Fioleau et al. 2013).  

More directly, researchers have found that auditor professional skepticism is not seen by client managers as adding value to external stakeholders of public companies (Öhman et al. 2012). In contrast, client managers believe that their own satisfaction with the quality of audit service is strongly correlated with their perceptions of the usefulness of the audit report to external stakeholders (Öhman et al. 2012). Furthermore, managers’ satisfaction with the auditor decreased with increasing auditor professional skepticism and increased with the more supportive and positive relationship between audit engagement staff and client management. In other words, managers had convinced themselves that positive cooperative relationships with low levels of professional skepticism not only resulted in them being more satisfied clients, but viewed their satisfaction as a key determinant of their perceptions of the usefulness of the auditor’s report to third parties (Öhman et al. 2012).

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8 Indeed at least one audit firm boasts about how it does 360° evaluations by client staff, client board members and audit staff of their satisfaction with audit services.
Related evidence is found in Asare et al. (2009) where they investigate the question whether client relation goals affect auditor judgment. They find that auditors informed that their own firm’s National Office would evaluate them on their ability to satisfy the client in addition to complying with GAAP and GAAS are more likely to accept clients’ preferred accounting method. Asare et al. find that this result is contingent on level of auditor experience and on the extent to which the auditor has internalized the threat to the audit firm from client litigation. Kadous et al. (2003) find that client engagement pressures (the timing of discovering the issue at interim audit or after year end) and the effect of not adopting the client’s preferred outcome on meeting or beating analysts’ expectations affects the auditor’s commitment to the goal of agreeing with the client’s preferred accounting position. Kadous et al. report that for a given level of goal commitment auditors are more likely to rate and rank a client’s desired policy as both the most appropriate and the most acceptable compared to the ratings and rankings of those auditors with a lower commitment to the goal of accepting the client’s preferred accounting.

3. Interaction of client pressure and audit firm pressure

DeZoort and Lord (1997) suggest, in a review of the audit literature on various sources of pressure on auditors, that environmental (i.e., client pressure) and audit firm management pressure will likely interact. The issue-contingent ethical decision making model of Jones (1991) reinforces this view that the two pressures will interact. According to this model, the salience of an issue (Taylor and Fiske 1978) is an important factor for raising the awareness that the decision problem involves an ethical or professional aspect (Jones 1991). Applying this model to our setting suggests that auditors will be more likely to feel challenged in their professional role when the factor triggering this feeling is more salient. Consequently, we expect that explicit client pressure will be more salient and stand out more when other factors, such as reminders of
CRM training including client evaluations of satisfaction with audit service quality, are absent. Further, it is likely that CRM reminders will act to ameliorate the effect of explicit client pressure, because auditors reminded of these evaluations will consider the negative effect of disputes with the client management over accounting policies on such service quality evaluations. Thus, we hypothesize that

**H1:** Explicit client pressure on the auditor to accept aggressive accounting in the absence of reminding of the audit firm use of CRM methods including client evaluations of auditor service quality will result in the greatest likelihood of an auditor rejecting the client’s proposed accounting policy, requiring a higher adjustment in order to find the accounting to be in accordance with GAAP and to adopt negotiation strategies that are consistent with achieving those goals compared to conditions without explicit pressure or conditions with the presence of reminders of client satisfaction evaluations.

See Figure 1 for a graphical representation of the hypothesis.9

--- Insert Figure 1 here ---

4. Modeling the effects of perceived client pressure and affinity for client

The auditing research that relies on motivated reasoning as its theoretical foundation cautions that there are great individual differences in interpretations of case facts that might affect the auditor’s commitment to the goal of client satisfaction with accounting policy. Hence, the use of measured variables rather than manipulated variables has tended to dominate (Kadous et al. 2003; Kadous et al. 2008; Peecher et al. 2010; Gibbins et al. 2010) in such studies. Figure 2 presents our overall path model based on the following set of hypotheses.

Conceptually it is straightforward to move from manipulating client pressure to measuring perceived client pressure. Thus, based on the arguments in the previous sections we advance the following hypothesis:

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9 Given the form of our expected interaction there would be no expected main effects and hence we do not make such predictions.
H2a: Greater perceived client pressure is more likely to lead to a rejection of aggressive client accounting policy choices and to the requirement for larger adjustments to client accounting to bring the accounting into conformance with GAAP (i.e., positive relationships).

--- Insert Figure 2 here ---

Further, based on reciprocity theory of negotiations (Pruitt and Carnevale 1993; Lewicki et al. 2009; Deutsch 1973; Thompson and Hastie 1990), the client’s specific request for no adjustments is likely to be interpreted by the auditor as the client’s initial contending position and reciprocity suggests that the auditor will hence also contend. This suggests the following hypothesis:

H2b: Greater perceived client pressure is more likely to lead the auditor to use contending negotiation tactics (i.e., a positive relationship) and less likely for the auditor to use compromising and concessionary tactics (i.e., negative relationships).

Gibbins et al. (2010) find that auditors facing an inflexible client initial position tend to use contending tactics and to demand higher write-downs. Brown-Liburd and Wright (2011) add that auditors employing contending tactics the most when the client has proven to be contentious in the past and when the audit committee is strong. Fu et al. (2011) show that highly experienced auditors demand higher write-downs if clients contend. This allows further fine-tuning of the arguments from the previous sections suggesting the following hypothesis:

H2c: Greater perceived client pressure is more likely to result in the auditor employing contending tactics that will increase the likelihood of rejecting the client’s aggressive preferred accounting and will lead to the demand for a larger initial adjustment to the financial statements by the auditor to bring them into conformity with GAAP (i.e., positive indirect relationships of perceived client pressure via contending tactics on likelihood of rejecting and amount of adjustment).

To conceptually relate the manipulated variable of reminding the auditor of the CRM tools being employed in the audit firm’s MCS including that client management will evaluate the auditor’s service quality, we utilize the construct already established in the research literature of
affinity for the client’s needs. Affinity for client’s needs incorporates the construct of the auditor’s commitment to the client’s directional goal (Kadous et al. 2003; Peecher et al. 2010) used in prior motivated reasoning research in auditing as well as the auditor identification with the client (e.g., Bamber and Iyer 2007; Seabright et al. 1992). It is consistent with the norms of CRM as CRM practices invoke the affective commitment that the auditor must exhibit to sustain proactive and engaged dialogue with client management (Sieg et al. 2012). Hence, we predict the following relationship:

**H3a:** Greater affinity for client needs is more likely to lead lesser willingness to reject aggressive client accounting policy choices and to the requirement for lower adjustments to client accounting to bring the accounting into conformance with GAAP (i.e., both negative relationships).

Pruitt and Carnevale’s (1993) dual concern model of negotiations suggests that if negotiators have a high concern for meeting the needs of their opponent that they will use concessionary and compromising tactics more in the negotiations to bring about a mutually acceptable agreement rather than employing contending tactics. In other words, their concern for others (i.e. the client) is implemented through the selection of negotiation tactics that will result in client-preferred outcomes. This suggests:

**H3b:** With greater affinity for client needs the auditor is more likely to use compromising and concessionary tactics (i.e., positive relationships) and is less likely to use contending tactics (i.e., a negative relationship).

**H3c:** Greater affinity for client is more likely to result in concessionary and compromising tactics being used increasing the likelihood of acceptance of the client’s aggressive preferred accounting and leading to lower initial demands from the auditor for adjustments to the financial statements to bring them into conformity with GAAP (i.e., negative indirect relationship).

**IV. Research Design and Method**
1. Participants

In our study, 158 auditors from eleven audit firms participated, including participants from three of the Big 4 audit firms. Our experimental setting requires participants to have experience in auditor-client negotiation and relationship marketing, and that they decide about negotiating or waiving potential audit adjustments. To ensure that auditors have this type of experience, we only include auditors in our sample that fulfill all of the following three criteria: (1) having signed audit opinions; (2) have at least four years of recent experience in auditing; and (3) being at least at the rank of a manager. We employ several means to gain access to these highly experienced auditors. We had six sessions where contact partners distributed questionnaires within the audit firms (65 participants), three training sessions in the presence of one of the authors (49 participants), and two training sessions in the presence of the respective instructor (44 participants). Twenty-five participants gave incomplete responses that omitted key dependent variables or did not fulfill the experience criteria leaving us with 133 participants.

As Table 1 shows, consistent with our selection criteria, our participants are highly experienced. They have an average of 14.0 years (SD = 7.3 years) of audit experience with 8.3 years (SD = 6.7 years) experience in signing audit opinions. They are at the rank of manager (n = 55), senior managers (n = 31), directors (n = 4) and partners (n = 43). Participants are both from Big 4 (n = 49) and non-Big 4 (n = 84) audit firms. Our pool of participants also reflects the dominance of male auditors among the higher ranked auditors (111 males versus 21 females).

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10 In Germany, it is normal for audit managers to sign the audit opinions on behalf of their firm unlike the requirement in the Anglo-Saxon world where only audit partners sign audit opinions. Hence, we refer to these participants as audit partners given they are signing audit opinions. However, in the Anglo Saxon world researchers have found that managers and partners might differ in their commitment to auditor independence (Gendron et al. 2006) and their negotiation behaviour (McCracken et al. 2011; Fu et al. 2011).

11 Participant questionnaire administration format is not a significant variable in any of our analyses.

12 None of the demographic or firm background variables is significant in our analyses.
The average participant stated that their audit firm puts “some” emphasis on client relationship management (mean = 5.03 on a scale from 1 (“little emphasis”) to 10 (“great emphasis”) with 5 labelled as “some emphasis”) in their work experience. They also reported having experience with issues similar to those encountered in this case with slightly less than half their clients (mean = 4.42 on a scale of 0 (“no experience”) to 10 (“all clients”) with 5 labelled as “50% of all clients”). Further, the participants found the case to be realistic (mean = +3.11 on a scale of -5 (completely disagree) to +5 (strongly agree) in response to the question “the Medtech AG case is realistic.”). Overall, these responses suggest that are participants have the background and experience necessary to carry out the task.\(^\text{13}\)

--- Insert Table 1 here ---

2. The experimental task

The main task concerns two accounting issues that are a combination of clear errors (i.e. ones that client has agreed to adjust for in our case) and two judgment issues where there is some room for “give and take” depending on how one decides to interpret the audit evidence in light of GAAP. In other words, a case setting where the aggressive initial accounting positions taken by the client may have a material misstating effect on the financial statements so as to potentially require adjustments prior to receiving a “clean” or unqualified audit opinion. One judgment issue involved the projection of errors discovered in sampling procedures to the full population. The other judgment issue involved the capitalization of expenses potentially related to repair work.

In all experimental conditions, the client accepts the need to make the adjustments for clear-cut errors. Further, in all conditions, planning materiality is set at 2.5 million euros and

\(^{13}\) None of these factors was significant when employed as control variables in the analysis.
performance materiality is set at 1.8 million euros.\textsuperscript{14} After adjusting for the clear-cut errors there remains 4.0 million euros of judgment related issues where the audit evidence suggests a need to propose adjustments to the financial statements but client management labels them as “differences in professional judgment” and hence believes that they should be waived.

3. Independent variables

The experiment is a 2X2 design. The two independent variables are the pressure on the auditor to accept the client’s preferred accounting position (explicit versus implicit) and reminding the auditor (reminder given or not given) that the audit firm had adopted CRM tools including the use of a client satisfaction evaluations of audit team service as part of the audit firm’s MCS.

The manipulation of the type of client pressure is part of a paragraph that discusses the handling of initial differences between the auditor and the client. Across all conditions, we emphasize that the client is committed to the accounting method (i.e., as in the inflexible client position in Gibbins et al. 2010) and that any material audit adjustments may threaten currently ongoing negotiations of an important merger (i.e., threaten the client’s business plans). First, we manipulate whether the client asks the auditor to evaluate audit adjustments in light of the merger discussions (implicit pressure) or whether the client states that audit adjustments are not acceptable (explicit pressure) in light of these discussions. Second, we frame the statement that the audit firm will remain with the merged firm as a personal impression of the auditor based on his impression of management (implicit pressure) or as a statement of the management that the auditor will be continuing with the newly merged larger company with commensurate higher

\textsuperscript{14} Participants agreed that the planning materiality as well as the performance materiality amounts stated in the case were reasonable according to their responses in our post experimental questionnaire.
audit fees (explicit pressure). Appendix 1, Panel A, shows the complete wording of the manipulation.

Our second manipulation is CRM training and client satisfaction about audit service quality reminding (present/absent). Relationship management literature in marketing suggests several means for implement CRM that results in the desired loyalty of the client to the service provider (Morgan and Hunt 1994). These tools require the consideration of clients’ interests in order to be highly responsive to client needs and to identify areas of common interests. Specifically, client service as conceived of in the CRM literature involves showing courtesy and respect, being highly approachable for the client, being very responsive to client needs, being very reliable and keeping promises (Parasuraman et al. 1985). Appendix 2, Panel A, shows how we implement the reminder. We remind the participants that their audit firm participates has implemented a CRM program, explain the rationale for the CRM program, and illustrate one tool, the client satisfaction questions about audit team service delivery quality, through examples of the questions the client management will be asked. In all conditions, we embed statements showing that the auditor and the audit team act in line with CRM norms (Appendix 2, Panel B). In other words, we hold the auditor actions constant across all experimental treatments only manipulating the reminding about CRM and its evaluations.

4. Constructing the measured independent variables

The two key theoretical variables in our study are client pressure and reminding the client of their CRM training and the evaluation that the client management will do of their satisfaction with audit service quality. Client pressure is a multi-faceted construct we have discussed above.

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15 These norms and questions are derived from an expert in professional service firm management material on evaluating client service effectiveness with a relationship management paradigm (Maister 1993).
and we measure perceived client pressure using four items that we randomly placed in our debriefing questionnaire at the end of the experiment (see Appendix 1, Panel B, for wording). The items ask about auditor agreement/disagreement with four pressure related terms “intimidation,” “threat,” “sanctions” and “conflict.” The use of these explicit conflict terms to elicit the pressure construct result in relatively unobtrusive measures as all of our manipulations of client pressure are worded in the positively (see Appendix 1, Panel A, for wording) and no threats are issued by the client.16

As discussed above, the underlying concern that motivates the CRM reminding manipulations is that CRM training is designed to make the auditor-client management relationship a closer and mutually supportive one (Sieg et al. 2012). In other words, the auditor employs CRM methods to ensure continuing tenure as well as receiving positive recommendations to other potential clients and, where allowed, to be considered as the provider of non-audit services (e.g., Öhman et al. 2012; Seabright et al. 1992; Sieg et al. 2012).17 However, the threat of CRM training and methods is that the auditor will identify further with the client and lessen the ability to be an independent assessor of the client’s accounting.

To measure this theoretical construct we use what we label affinity for client needs that is based on measures employed in prior audit research that capture loyalty in the auditor-client management relationship (de Ruyter and Wetzles 1999) as well as the identification with the client (Bamber and Iyer 2007). Appendix 2, Panel C shows the three items we used to measure

16 Pretesting showed that explicit threats, as might be expected given our theory, lead to very strong and negative auditor reaction to client management’s accounting policy and to participating in the research. Hence, we moderated the manipulation substantially in order to obtain access to participants.
17 The German regulations on non-audit service provisions in private companies are comparable to that in the USA and other Anglo-Saxon jurisdictions. The provision of non-audit services is allowed, but the provision of specific types of non-audit services to audit clients is banned. Examples of prohibited services include the involvement in preparing the financial statements, involvement in the performance of internal audit functions in a position of responsibility, independent actuarial or valuation services that have material impacts on annual financial statements (e.g., Quick et al. 2013).
this construct. The items measure “personal importance”, “attachment”, and “enjoyment of the relationship.”

5. Dependent variables

Our main measure is auditors’ willingness to accept the client’s potentially inappropriate but preferred accounting method (see Appendix 3, Panel A). We also ask auditors what amount of audit adjustments they and a typical auditor would insist on (Appendix 3, Panel B). Finally, we elicit the auditor’s intended negotiation strategies, using an abbreviated version (seven items – three contending, two compromising and two concessionary items) of the sixteen item measure in Gibbins et al. (2010) that was based on the highly validated negotiation tactics and strategies instrument of Rahim (1983) (Appendix 3, Panel C). While we wished to employ the entire sixteen-item instrument, pretesting revealed that our respondents were highly upset with what they perceived as the repetition of items in the longer measure. Indeed, in the administration of the final experiment the main complaint was about the length and repetitious of the negotiation measure.

V. Results

1. Manipulation checks

We use two items to check the effectiveness of our client pressure manipulation.

- “Medtech AG’s management is attempting to intimidate you as an auditor at Audit WPG in this situation.”
- “Medtech AG’s management is threatening you (Audit WPG) with non-renewal of the audit engagement”.

For these two items, participants indicate their agreement on a scale from -5 ("strongly disagree") to +5 (strongly agree). Aggregating both items shows that our manipulation of client pressure has overall a highly significant impact (p-value (t-test) = 0.017)).

We include three short statements on service quality in the case to enable participants to provide meaningful answers (see Appendix 3, Panel B). We find that participants in the CRM training and client evaluation of service quality condition self-assessed the quality of their service to the client as significantly higher than those that did not receive the explicit reminder. The reminded participants agreed more strongly to the statement that the client will recommend them as an auditor based on their outstanding client service when they are reminded (mean (SD) = 2.93 (1.65)) than when they are not reminded (mean (SD) = 2.25 (2.24)), a significant difference (p-value (t-test) = 0.023). This finding indicates that explicit reminding of CRM training and client satisfaction measures reminding had the intended effect.

2. Descriptive statistics

Table 2 shows the descriptive statistics for all our dependent variables. After reverse coding the accounting policy acceptability item we find on average that auditors indicate a high likelihood that they will reject client’s position (mean (SD) = 6.93 (2.30)). Second, we find, on average, auditors will ask for an audit adjustments of 2.49 million euros (SD = 0.87). This amount of adjustment ensures, on average, that the remaining potential misstatement is below the given performance materiality of 1.8 million euros (4.0m – 2.49m = 1.51m euros). When asked about their approach to communicating the error to the client, auditors tend to emphasize that they will

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18 Individually both items produced similar results. For the intimidate item auditors in the explicit pressure condition agreed more strongly with this statement (mean (SD) = 1.15 (2.69)) than auditors in the implicit pressure condition (mean (SD) = -0.01 (2.71)), a significant difference (p-value (t-test) = 0.009). For the threaten item participants in the explicit pressure condition indicate a stronger agreement (mean (SD) = 1.17 (2.71)) than auditors in the implicit pressure condition (mean (SD) = 0.61 (3.02)), a difference close to marginal significance (p-value (t-test) = 0.133).
act contending (mean (SD) = 5.35 (1.36)) rather than conceding (mean (SD) = 3.20 (1.71)) or compromising (mean (SD) = 3.41 (1.75)).

--- Insert Table 2 here ---

3. Interactive effect of client pressure and CRM reminding

Table 3, Panels A and B, show the overall ANOVAs for the 2X2 experimental design for auditor’s willing to reject aggressive client accounting and for concessionary tactics together with the results of the contrast tests. A significant interaction between pressure and CRM reminding is found on the intent to employ conceding tactics. A significant main effect is found for client pressure on rejection of aggressive client accounting. All other ANOVA’s show insignificant results. See Figure 1.

To test H1 properly we employ contrast tests. The contrast tests show that we find a marginally significant effect of explicit pressure without CRM reminding versus all others on the auditors’ willingness to reject the client’s position (p = 0.066) and a significant effect on auditors’ intention to employ conceding tactics (p = 0.031). No significant effects are found for amount of adjustment proposed and intended use of contending or compromising tactics.

--- Insert Table 3 here ---

--- Insert Figure 1 here ---

4. Path model embedded in a structural model

As we noted above, motivated reasoning research in accounting has frequently used multi-items scales (e.g., Kadous et al. 2003) and path analysis embedded in SEM (e.g., Kadous et al. 2008) to test the hypothesized relationship based on the highly individualistic interpretations of stimuli especially when dealing with more senior practitioners (see Gibbins et al. 2010 with respect to audit partners in negotiation research). Before carrying out our path analysis, we ensured that
each observed construct that is based on averages of several items had a high degree of reliability and is internally consistent.

We employed Cronbach’s alpha with a cut-off 0.60 as a measure of reliability for each set of items that we thought to be measures of the same construct (Kline 1999).\(^\text{19}\) We submitted the items that we thought would load on a single construct to confirmatory factor analysis to ensure that each item highly significantly (p<0.01) loaded to that construct (e.g., that the three contend items in Appendix 3, Panel C loaded to the same construct). Finally, all items that are related to a similar concept (e.g., the seven items about negotiation tactics in Appendix 3, Panel C) were submitted to an exploratory factor analyses to ensure that the number of constructs that we thought we were measuring actually are present in the data (i.e., in the case of the negotiation tactics three factors would be expected: contend, concede and compromise). We use an eigenvalue of 1 to determine the number of factors and a factor loading of at least 0.40 to ensure that we were measuring a valid construct.\(^\text{20}\)

All five averaged constructs in Figure 3 (affinity for client, perceived client pressure and the three negotiating strategies: contend, concede and compromise) passed these three reliability and internal consistency tests. The model fit statistics in Table 4, Panel D, show that the model has all the necessary fit characteristics to enable interpretation.

Table 4, Panel A and Panel B, and Figure 3 present the path analysis’s direct effects. As expected (H2a) there is a strong direct effect of perceived client pressure with higher perceived client pressure being associated with increasing the amount of the required adjustment to bring

\(^{19}\) Some would cite this criterion as merely being acceptable in light of with the classic definition of Nunnally (1978) that alpha should be at least 0.70. However, most texts suggest this criterion is only valid for multi-item scales (e.g. five or more items). Further, there is a history in audit research, especially for initial papers in an area to allow for broader ranges of Cronbach’s alpha (see DeZoort and Salterio 2001 p. 38 for a discussion of this issue in accounting research.)

\(^{20}\) Our affinity for client measure had a Cronbach’s alpha of 0.47 but all other criteria were satisfied.
the financial statements into conformity with GAAP (0.10, p<0.01). Further, as predicted (H3a), auditors exhibiting higher affinity for the client’s needs require a smaller adjustment to the financial statements both directly (-0.08, p<0.10) and indirectly (-0.03, p<0.05) via compromise (H3c). While there were no direct effects of affinity for client needs on the likelihood of rejection, there are, as predicted (H3c), negative indirect effects via compromising (-0.05, p<0.05) and conceding (-0.07, p<0.05).

Furthermore, as expected (H2b) there are strong direct effects between greater use of contending tactics and the greater likelihood of rejecting client accounting (0.11, p<0.05, see Table 4, Panel C). Also, as expected (H3b) there are negative relationships between increased use of compromising tactics on both likelihood of rejection client accounting (-0.13, p<0.05) and lower required adjustments to the financial statements (-0.06, p<0.01). As hypothesized (H3b), there is a negative relationship between increased use of concessionary tactics and the likelihood of rejecting client accounting (-0.11, p<0.10).

Overall, both experimentally and by using our measurement model, we find support for our hypotheses that client pressure and implementation of CRM tools by audit firms as part of the MCS results in the predicted reaction of auditors. In particular, experimentally we showed that the most likely response to explicit client pressure was to reject the client’s aggressive accounting policy and decrease the use of concessionary tactics in negotiations with that client. Our measurement model allowed more precise calibration of our results showing that the greater the perceived client pressure the greater the amount of the adjustment required by the auditor to

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21 Indirect effects can be obtained by simply multiplying together the paths of the significant direct effects. For example the path of affinity for client to compromise is 0.43 and the path from compromise to required adjustment to financial statements is -0.06 leading to a significant indirect effect of -0.03 of affinity for client on required adjustment. Indirect effects are said to be significant that the level of significance associated with the least significant path.
bring the financial statements into accordance with GAAP. Further, the measurement model showed that increased affinity for the client reduced the likelihood of rejecting the client’s aggressive preferred accounting and decreased the amount of adjustment required by the auditor. The employment of negotiating tactics consistent with achieving these outcomes was also found especially in the case of compromise and concessionary tactics.

--- Insert Figure 3 here ---

--- Insert Table 4 here ---

5. Supplemental analysis

It would be ideal to construct a full SEM employing latent variables instead of using the averages of the observed variables as in a path analysis. However, the number of participants, at 133, does not lend itself to estimating the 25 variances and co-variances that would need to be estimated for a full model not to mention an equal number of parameter estimates. While the model can be estimated given that there are 5 observations (i.e., participants) for each variances, co-variances and parameters to be estimated, SEM theorists (e.g., Bollen 1989) have concerns about interpreting such a model. Ex ante, unless the population is highly homogenous and has relatively low variance in interpreting the stimuli, they suggest that such model fits will be poor. Further, due to constraints imposed by our participants where they did not want to respond to multiple items about the same latent construct, certain latent variables (e.g., the negotiation tactics - concede and compromise) are only measured with two observed items which is below the recommended three items per latent variable. Hence, we ran the SEM model being very much aware that it was an exploratory given the number of modeling requirements that our data did not meet.
Instead of running the full latent variables model analogous to the path model in Figure 2 to conserve degrees of freedom we started by estimating our SEM model based on the path analysis results in Figure 3. The only new variable that is not composed of the items that made up the averages of the path analysis variables is reject_lat. Reject_lat is a latent variable constructed from the items “likelihood to reject client proposed aggressive accounting” and the “amount of adjustment required to bring the financial statements into conformance with GAAP.”

Similar to path models embedded in SEM, SEM models with latent variables should be examined in two stages (Thompson 2000). First the measurement model (i.e., the construction of the various latent variables) and second, only if the fit is acceptable, should the structural model between the latent variables be examined. As would be expected given the criteria employed to ensure that the path variables were reliable and consistent constructs, all of the latent variables’ individual items load to the latent construct as expected. However, as the text box in Figure 5 shows, the model’s fit is relatively poor with only the RMSEA criterion (of the five SEM model fit criterion introduced in the path analysis section) being met.

--- Insert Figure 4 here ---

Nonetheless, we examine the structural model of relationships between the latent variables in Figure 4 (note that we do not tabulate the detailed results for this model given its exploratory nature). Partially consistent with H2a, we find a significant and positive relationship between the latent variable measuring perceived client pressure, pressure_lat, and reject_lat (0.22, p<0.05) but a non-significant relationship between the latent variable measuring affinity for client needs, afc_lat, and reject_lat (-0.40, p<0.20). Partially consistent with H3b there is a positive marginally significant relationship between auditor’s use of contending strategies, contend_lat, and reject_lat (0.30, p<0.10) and a significant negative relationship between
compromising strategies, compromise_lat, and reject_lat (-0.40, p<0.05) but the relationship between conceding strategies, concede_lat, and reject_lat is insignificant. Finally, partially consistent with H3c there is a negative indirect effect of affinity for client’s needs, afc_lat, on reject_lat via the compromise negotiation tactic (-0.16, p<0.05) given the affinity for client’s needs to compromise link is positive and significant (0.41, p<0.05).22 In summary, subject to the caveats expressed above, our SEM model with latent variables corroborates the results of the path analysis.

VI. Conclusions

Pressure is part of the life of any auditor. In this study, we examine the interaction of two sets of pressures on highly experienced auditors’ judgments about the acceptability of a client’s proposed aggressive accounting policy and the means by which auditors seek to obtain an acceptable set of accounts from client management. We consider the two main sources of pressure, namely client management pressure on the auditor to accept the client’s preferred aggressive accounting and audit firm pressure on the auditor to develop and grow the business profitability.

In our experiment with highly experienced auditors who have on average eight years of experience in signing audit opinions we found evidence that both pressures affect the auditor’s judgments. The more explicit the auditor feels the client management pressure, the more willing the auditor is to resist such pressure. However, when the management pressure is more subtle or when the auditor is reminded that their own firm’s MCS incorporate CRM tools including client management evaluations of auditor service quality, auditors are more willing to acquiesce to

22 As in footnote above the indirect relationship is -0.16 = 0.41 *-0.40 with the link from afc_lat to compromise_lat and compromise_lat to reject_lat, respectively.
such client desires. Providing added assurance to this finding is seeing that the auditor’s intended use of negotiation strategies is consistent with their direct responses to these pressures.

Of course, there are limitations to our work. In particular, a larger sample of audit partners and equivalents would have allowed for more sophisticated modeling via SEM with latent variables. Further, the willingness of auditors to responding to multiple items that represent the same latent construct would enable improved measurement of those constructs. Third, it is possible (albeit remote) that German audit partners and equivalents would respond in a manner that is systematically different then Anglo-Saxon audit partners would respond (see discussion in Gold et al 2014 on this issue).

Fourth, we only present one scenario to our auditors and perhaps there are unique features of this scenario that might not generalize. Focusing on auditors with in depth CRM training or providing such training in a controlled fashion would strengthen our manipulations. However, our auditors reported some familiarity with CRM concepts and practices, found our case setting realistic and practice experience with slightly less than 50% of their clients with similar issues.

This paper contributes to our understanding of the audit process on a number of dimensions. First, it shows that ethical and professional audit education and standard setting seems to have been effective in that whenever the auditor perceives client management as explicitly pressuring them into accepting aggressive accounting the auditors are more likely to reject such accounting and to use negotiating tactics that are consistent with that resistance. Second, it shows that when the client management is more subtle with their use of pressure on the auditor, management can reinforce the auditor’s natural affinity to be a motivated reasoner and to see the world through the eyes of management through the auditor’s interpretations of the
facts of the situation. We provide evidence consistent with prior researchers that auditors do not
deliberately set out to misapply GAAP or allow client management excessive leeway in
interpreting accounting standard but rather do so through unconscious processes. Third, we have
documented that the increased emphasis on auditors being part of professional service firms and
utilizing measures in the audit firm’s MCS that are commonly used as part of client relationship
management initiatives further enhances the auditor’s unconscious motivation to see the world
through management eyes. It appears that practice development training, especially training
related to providing high quality service to meet client management needs, has the unintended
consequence of making auditor’s more susceptible to seeing the world through management’s
eyes rather than as an independent interpreter of GAAP.
References

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Table 1.
Demographic description of auditor participants

**Panel A.** Experience

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>N=133</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience in auditing (years)</td>
<td>14.0</td>
<td>7.3</td>
<td>132</td>
</tr>
<tr>
<td>Experience as signing auditor (years)</td>
<td>8.3</td>
<td>6.7</td>
<td>133</td>
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</tbody>
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**Panel B.** Rank, Firm and Gender

<table>
<thead>
<tr>
<th>Variable</th>
<th>N=133</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
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</tr>
<tr>
<td>Partner</td>
<td>43</td>
</tr>
<tr>
<td>Director</td>
<td>4</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>31</td>
</tr>
<tr>
<td>Manager</td>
<td>55</td>
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<tr>
<td>Firm</td>
<td></td>
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<tr>
<td>Big 4</td>
<td>49</td>
</tr>
<tr>
<td>Non-Big 4</td>
<td>84</td>
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<tr>
<td>Gender</td>
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<tr>
<td>Female</td>
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<tr>
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</tr>
<tr>
<td>Missing</td>
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Table 2.

Descriptive statistics of auditor sought outcomes and intended negotiation tactics

Panel A. Auditor sought audit outcome

<table>
<thead>
<tr>
<th>Client pressure</th>
<th>CRM reminding</th>
<th>Reject (0-10)</th>
<th>Adjust (0.0-4.0m euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implicit</td>
<td>No CRM</td>
<td>5.99</td>
<td>2.55</td>
</tr>
<tr>
<td>N = 26</td>
<td>(2.51)</td>
<td>(0.82)</td>
<td></td>
</tr>
<tr>
<td>CRM</td>
<td>6.89</td>
<td>2.65</td>
<td></td>
</tr>
<tr>
<td>N = 37</td>
<td>(2.13)</td>
<td>(1.00)</td>
<td></td>
</tr>
<tr>
<td>Explicit</td>
<td>No CRM</td>
<td>7.45</td>
<td>2.46</td>
</tr>
<tr>
<td>N = 33</td>
<td>(2.21)</td>
<td>(0.91)</td>
<td></td>
</tr>
<tr>
<td>CRM</td>
<td>7.16</td>
<td>2.33</td>
<td></td>
</tr>
<tr>
<td>N = 37</td>
<td>(2.28)</td>
<td>(0.70)</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>N = 133</td>
<td>6.93</td>
<td>2.49</td>
</tr>
<tr>
<td></td>
<td>(2.30)</td>
<td>(0.87)</td>
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</table>

Panel B. Auditor intended negotiation tactics (scale 0-7)

<table>
<thead>
<tr>
<th>Client pressure</th>
<th>CRM reminding</th>
<th>Concede (2 items)</th>
<th>Compromise (2 items)</th>
<th>Contend (3 items)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implicit</td>
<td>No CRM</td>
<td>3.82</td>
<td>3.78</td>
<td>5.13</td>
</tr>
<tr>
<td>N = 26</td>
<td>(1.63)</td>
<td>(1.82)</td>
<td>(1.61)</td>
<td></td>
</tr>
<tr>
<td>CRM</td>
<td>3.11</td>
<td>3.46</td>
<td>5.41</td>
<td></td>
</tr>
<tr>
<td>N = 37</td>
<td>(1.79)</td>
<td>(1.78)</td>
<td>(1.34)</td>
<td></td>
</tr>
<tr>
<td>Explicit</td>
<td>No CRM</td>
<td>2.72</td>
<td>3.27</td>
<td>5.61</td>
</tr>
<tr>
<td>N = 33</td>
<td>(1.77)</td>
<td>(1.73)</td>
<td>(1.14)</td>
<td></td>
</tr>
<tr>
<td>CRM</td>
<td>3.30</td>
<td>3.24</td>
<td>5.22</td>
<td></td>
</tr>
<tr>
<td>N = 37</td>
<td>(1.58)</td>
<td>(1.72)</td>
<td>(1.39)</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>N = 133</td>
<td>3.20</td>
<td>3.41</td>
<td>5.35</td>
</tr>
<tr>
<td></td>
<td>(1.72)</td>
<td>(1.75)</td>
<td>(1.36)</td>
<td></td>
</tr>
</tbody>
</table>

Variable definitions

Reject and Adjust are defined in Appendix 3, Panels A and B.
Negotiation tactics are defined in Appendix 3, Panel C.
Table 3.

ANOVA analysis of client pressure and CRM reminding on auditor judgments

Panel A. Auditor intent to reject client aggressive accounting (Reject)

<table>
<thead>
<tr>
<th>Source</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client pressure</td>
<td>1</td>
<td>24.55</td>
<td>4.76</td>
<td>0.031</td>
</tr>
<tr>
<td>CRM reminding</td>
<td>1</td>
<td>3.04</td>
<td>0.59</td>
<td>0.444</td>
</tr>
<tr>
<td>Client pressure X CRM reminding</td>
<td>1</td>
<td>11.64</td>
<td>2.26</td>
<td>0.136</td>
</tr>
<tr>
<td>Error</td>
<td>129</td>
<td>5.15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

H1: Contrast of explicit pressure/No CRM vs. all other cells p = 0.066

Panel B. Auditor intent to employ conceding tactics (Concede)

<table>
<thead>
<tr>
<th>Source</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client pressure</td>
<td>1</td>
<td>6.72</td>
<td>2.33</td>
<td>0.129</td>
</tr>
<tr>
<td>CRM reminding</td>
<td>1</td>
<td>0.14</td>
<td>0.05</td>
<td>0.825</td>
</tr>
<tr>
<td>Client pressure X CRM reminding</td>
<td>1</td>
<td>13.48</td>
<td>4.67</td>
<td>0.033</td>
</tr>
<tr>
<td>Error</td>
<td>129</td>
<td>2.88</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

H1: Contrast of explicit pressure/No CRM vs. all other cells: p = 0.031

Variable definitions

Reject and Concede are defined in Appendix 3, Panels A and C.
Client pressure manipulations are found in Appendix 1 Panel A.
CRM reminding manipulations are found in Appendix 2 Panel A.
Table 4.
Path model results of perceived client pressure and affinity for client needs on auditor judgments

Panel A. Direct effects of perceived client pressure and affinity for client on accounting outcomes sought by auditor

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent variable</th>
<th>Expected Direction</th>
<th>Estimate</th>
<th>SE</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reject</td>
<td>Affinity for client</td>
<td>-</td>
<td>0.013</td>
<td>0.117</td>
<td>0.914</td>
</tr>
<tr>
<td>Adjust</td>
<td>Affinity for client</td>
<td>-</td>
<td>-0.082</td>
<td>0.042</td>
<td>0.054</td>
</tr>
<tr>
<td>Reject</td>
<td>Perceived client pressure</td>
<td>+</td>
<td>-0.011</td>
<td>0.105</td>
<td>0.919</td>
</tr>
<tr>
<td>Adjust</td>
<td>Perceived client pressure</td>
<td>+</td>
<td>0.101</td>
<td>0.038</td>
<td>0.008</td>
</tr>
</tbody>
</table>

Panel B. Direct effects of perceived client pressure and affinity for client on negotiation tactics

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent variable</th>
<th>Expected Direction</th>
<th>Estimate</th>
<th>SE</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concede</td>
<td>Affinity for client</td>
<td>+</td>
<td>0.635</td>
<td>0.162</td>
<td>0.001</td>
</tr>
<tr>
<td>Compromise</td>
<td>Affinity for client</td>
<td>+</td>
<td>0.429</td>
<td>0.170</td>
<td>0.012</td>
</tr>
<tr>
<td>Contend</td>
<td>Affinity for client</td>
<td>-</td>
<td>0.208</td>
<td>0.201</td>
<td>0.302</td>
</tr>
<tr>
<td>Concede</td>
<td>Perceived client pressure</td>
<td>-</td>
<td>-0.225</td>
<td>0.156</td>
<td>0.150</td>
</tr>
<tr>
<td>Compromise</td>
<td>Perceived client pressure</td>
<td>-</td>
<td>0.010</td>
<td>0.164</td>
<td>0.951</td>
</tr>
<tr>
<td>Contend</td>
<td>Perceived client pressure</td>
<td>+</td>
<td>0.227</td>
<td>0.194</td>
<td>0.241</td>
</tr>
</tbody>
</table>

Panel C. Direct effects of negotiating tactics on accounting outcomes sought by auditor

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent variable</th>
<th>Expected Direction</th>
<th>Estimate</th>
<th>SE</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reject</td>
<td>Concede</td>
<td>-</td>
<td>-0.106</td>
<td>0.058</td>
<td>0.067</td>
</tr>
<tr>
<td>Adjust</td>
<td>Concede</td>
<td>-</td>
<td>-0.022</td>
<td>0.021</td>
<td>0.299</td>
</tr>
<tr>
<td>Reject</td>
<td>Compromise</td>
<td>-</td>
<td>-0.133</td>
<td>0.055</td>
<td>0.016</td>
</tr>
<tr>
<td>Adjust</td>
<td>Compromise</td>
<td>-</td>
<td>-0.060</td>
<td>0.020</td>
<td>0.003</td>
</tr>
<tr>
<td>Reject</td>
<td>Contend</td>
<td>+</td>
<td>0.106</td>
<td>0.047</td>
<td>0.022</td>
</tr>
<tr>
<td>Adjust</td>
<td>Contend</td>
<td>+</td>
<td>0.025</td>
<td>0.017</td>
<td>0.141</td>
</tr>
</tbody>
</table>

Variable definitions:
Reject, Adjust and the three negotiation tactics, Concede, Compromise and Contend, are defined in Appendix 3, Panels A, B and C.
Perceived Client Pressure is defined in Appendix 1, Panel B.
Affinity For Client is defined in Appendix 2, Panel C.
Panel D. Model fit (N = 133)

Chi-square test of fit: Reject the null of a better fit (p>0.05) with a $\chi^2$/DF of less than 4

<table>
<thead>
<tr>
<th>Chi-square Model</th>
<th>$\chi^2$</th>
<th>DF</th>
<th>p-value</th>
<th>$\chi^2$/DF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Default model</td>
<td>6.91</td>
<td>4</td>
<td>0.141</td>
<td>1.727</td>
</tr>
<tr>
<td>Independence model</td>
<td>82.81</td>
<td>28</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fit indices: Fit indices should be at or above 0.95
- Comparative fit index (CFI) 0.95
- Incremental fix index (IFI) 0.96
- Normed fit index (NFI) 0.92

Residual model error: RMSEA should not be significantly different from 0.05

<table>
<thead>
<tr>
<th>RMSEA Model</th>
<th>RMSEA</th>
<th>Probability of RMSEA estimate being statistically different from target RMSEA of 0.05 (PCLOSE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Default model</td>
<td>0.074</td>
<td>p&gt;0.26 – Not significant</td>
</tr>
<tr>
<td>Independence model</td>
<td>0.122</td>
<td></td>
</tr>
</tbody>
</table>

Interpretation of fit statistics: Thompson (2000, 270-271) describes the CFI, comparative fit index, and its closely related indices of the incremental fit index (IFI) and the normed fit index (NFI) and the RMSEA, root mean square error approximation, as being the most informative criteria for assessing the model fit of indicators, especially for smaller samples. The normal benchmarks for goodness of fit are a non-significant $\chi^2$, a CFI approaching 1 with anything over 0.95 (0.90) indicating a good (acceptable) fit and a RMSEA approaching 0.05 (Thompson 2000, 270-271). A test for whether the obtained RMSEA is significantly different from an RMSEA of 0.05 is called the PCLOSE test. The concept of a non-significant $\chi^2$ may seem non-intuitive but the idea is that statistically the test of the null hypotheses that there is no better fitting model available and hence an insignificant finding suggests a well-fitting model. Also see Bollen (1989) for detailed exposition of these issues.
Figure 1.
Experimental predictions and results for manipulated variables

Panel A: Reject (predicted and observed),
Contrast explicit pressure/no CRM vs. all other cells: $p = 0.066$

Panel B: Concede
Contrast explicit pressure/no CRM vs. all other cells: $p = 0.031$

Variable definitions:
Appendix 3, Panels A and C defines Reject and the negotiation tactic - Concede.
Figure 2.
Path model of perceived client pressure and affinity for client needs on intended negotiation tactics and desired accounting outcomes

Solid (dotted) lines represent direct (indirect) effects of perceived pressure and affinity for client needs on strategies and outcomes

See Table 4 for variable definitions.
Figure 3.
Effects of perceived client pressure and affinity for client needs on intended negotiation tactics and desired accounting outcomes

Variables of interest

- Affinity for Client
- Perceived Client Pressure

Intended negotiation tactics

- Concede
- Compromise
- Contend

Accounting outcomes

- Likelihood of REJECTing client preferred accounting
- ADJUSTment Required to Bring Accounting into GAAP Conformity

Model Fit: $X^2(4)= 6.91$ $p>0.14$
CFI = 0.95; IFI = 0.96; NFI = 0.92
RMSEA = 0.074 $p>0.26$
(H: RMSEA =0.05 not rejected)

Significant paths at $p<0.05$ or lower are in **bold**.
Marginal significance at $p<0.10$ is in *italics*.
See Table 4 for exact significance levels.
Figure 4.
Structural equations model with latent variables based on Figure 3 with SEM results

Figure shows standardized coefficients. Significant structural coefficient are in **bold** (p<0.05), marginally significant coefficients are in *bold italics* (p<0.10). Coefficients of variables forming the latent variable are all significant.

**Model fit is relatively poor**
\[ \chi^2(92)= 132.9 \text{ p}<0.01 \]
CFI=0.86
IFI = 0.88
NFI = 0.70
RMSEA =0.058

Legend (see next page)
Legend (Table 4):
afc_lat: **Affinity for client** needs is measured by employing the three items in Appendix 2, Panel C.
pressure_lat: **Perceived client pressure** is measured by employing the four items in Appendix 1, Panel B.
concede_lat, compromise_lat, contend_lat: Negotiation tactics (**concede, compromise** and **contend**) is measured by the two or three items per measure as defined in Appendix 3, Panel C.
reject_lat: Acceptance of accounting measured by items **Reject** and **Adjust** as defined in Appendix 3, Panels A and B.
Appendix 1.

Client Pressure Manipulation and Measurement of Perceived Client Pressure

Panel A: Manipulation of Client Pressure

First introduction of client pressure manipulation (bold font indicates manipulation)

<table>
<thead>
<tr>
<th>Implicit pressure</th>
<th>Explicit pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>In discussions at the beginning of the audit, Medtech AG management stated that they will adjust for any clear cut errors.</td>
<td>However, beyond that any adjustments <strong>should be evaluated in the light of</strong> the delicate stage that the merger discussions are at.</td>
</tr>
</tbody>
</table>

However, beyond that any adjustments **should be evaluated in the light of** the delicate stage that the merger discussions are at. However, beyond that any adjustments **are not acceptable given** the delicate stage that the merger discussions are at.

The merger might not go ahead if there were material adjustments made to the financial statements that reduce reported net income.

**In your personal view, the Medtech AG management thinks** that Audit WPG should give Medtech AG the benefit of the doubt for any judgment calls this year.

**Medtech AG management states** that Audit WPG should give Medtech AG the benefit of the doubt for any judgment calls this year **given their long relationship.**

**Your conversations with Medtech AG management also gives you the impression** that a successful merger with Healthcare GmbH means that Audit WPG will likely continue to be the auditor of the merged firm at what could be a considerably higher fee.

**Medtech AG’s management also points out to you** that a successful merger with Healthcare GmbH means that Audit WPG will likely continue to be the auditor of the merged firm at what could be a considerably higher fee.

Later in the case the client pressure manipulation is reinforced using the following:

<table>
<thead>
<tr>
<th>Implicit pressure</th>
<th>Explicit pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>You again think about your impression from the beginning of the audit, namely that Medtech AG’s management believes that Audit WPG should give Medtech AG the benefit of the doubt for any judgment calls this year.</td>
<td>You again think about the words of Medtech AG’s management, namely that Audit WPG should give Medtech AG the benefit of the doubt for any judgment calls this year.</td>
</tr>
</tbody>
</table>

Further, you **still have the impression** that a successful merger with Healthcare GmbH means that Audit WPG will likely continue to be the auditor of the merged firm at what could be a considerably higher audit fee.

Further, you **remember that Medtech AG’s management pointed out to you** that a successful merger with Healthcare GmbH means that Audit WPG will likely continue to be the auditor of the merged firm at what could be a considerably higher audit fee.
Panel B: Measurement of Perceived Client Pressure

The following four measures of perceived client pressure are elicited in the debriefing questionnaire at the end of the session. The items are placed randomly among the questions posed. The variable names (in brackets below) used in the Tables and Figures are not part of the instrument the auditors saw.

Medtech AG’s management is attempting to intimidate you as an auditor at Audit WPG in this situation (intimidate).

Medtech AG’s management is threatening you (Audit WPG) with non-renewal of the audit engagement (threat).

When you do not agree with the client’s management, they are in the position to penalize you for your behavior (sanction).

Medtech AG’s management’s interests and your interests as auditors are in conflict in this situation (conflict).

The above four items are elicited on a -5 to +5 scale anchored with “strongly disagree” and “strongly agree”:

\[
\begin{array}{cccccccc}
-5 & -4 & -3 & -2 & -1 & 0 & 1 & 2 & 3 & 4 & 5 \\
\mid---|----|----|-----|-----|-----|-----|-----|-----|----|----|---
\end{array}
\]

Strongly disagree | Neither agree | Strongly agree
Neither nor disagree | Strongly agree
Appendix 2.

Client relationship management reminding manipulation and measurement of affinity for client needs

**Panel A.** Manipulation of reminding auditor of CRM training and measurement client satisfaction with audit service quality (present/absent)

Consistent with this strategy [of achieving moderate growth], your audit firm had started to implement a client relationship management program three years ago. The basic premise of this program is that it is easier to gain revenue from existing clients rather than spending money in the hope of attracting new clients. Part of this program is a comprehensive evaluation from all parties (a 360-degree evaluation). Hence, an independent market research firm will gather answers from the Medtech AG’s management shortly after the completion of the audit on questions about you and your team at Audit WPG relationship with Medtech AG management during this audit. You recall that the questions are ones like: Is the audit team accessible for the client? Does the audit team keep their promises on deadlines? Does the audit team relate well to you and your employees?

**Panel B:** Statements embedded in case describing current and past client relationship (same wording across all treatments)

1. “You and your audit team enjoy a good working relationship with the management of Medtech AG and this year was no different.”

2. “During the audit, you and your audit team have followed the policy to be very accessible for the client and to respond to all client’s requests as soon as possible. You and your team have been very conscientious about following this policy and the CFO has remarked on your team’s responsiveness to their needs.”

3. “You are three days away from finalizing the financial statements so you feel there is a great degree of pressure to resolve the issues with client management. You believe that keeping promises on deadlines is important and have demonstrated this to the client management throughout the engagement by keeping to the agreed schedule despite any challenges that arose.”
Panel C: Affinity for client needs

The following three items are employed to measure affinity for client needs and are elicited in the debriefing questionnaire at the end of the session. These items provide a measure of how effective the manipulation of CRM reminding (or not). The items are placed randomly among the debriefing questions posed. The variable names (in brackets below) used in the Tables and Figures are not part of the instrument the auditors saw.

Medtech AG is not personally important to me as an auditor at Audit WPG (afc1, reverse coded).

I as an auditor at Audit WPG really feel as if Medtech AG’s problems are my own (afc2).

We at Audit WPG want to remain the auditor of Medtech AG because we genuinely enjoy our relationship with Medtech AG. (afc3).

The above three items are elicited on a -5 to +5 scale anchored with “strongly disagree” and “strongly agree”:

\[
\begin{array}{ccccccccc}
-5 & -4 & -3 & -2 & -1 & 0 & 1 & 2 & 3 & 4 & 5 \\
|----|----|----|----|----|----|----|----|----|----|
\end{array}
\]

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Neither agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>nor disagree</td>
<td></td>
<td>agree</td>
</tr>
</tbody>
</table>
Appendix 3.

Dependent Variables

Panel A. Management’s aggressive accounting policy rejection judgment

Reject is measured by 10-Accept rating elicited in the item below. The word in brackets is not seen by the participants.

How likely are you as an auditor of Audit WPG to accept Medtech AG management’s position and, therefore, require no material adjustments to the financial statements except for beyond clear cut errors this year? (Accept)

0 5 10
|----|----|----|----|----|----|----|----|----|----|
Never Somewhat Definitely

Panel B. The auditor’s required adjustment to bring the financial statements in conformance with GAAP

Adjust is measured by the following two items:

According to the audit evidence, there are €4.0 million in potential additional adjustments that the Medtech AG has not recorded yet.

On which amount of adjustments would you as an auditor of Audit WPG insist? ("m" = "millions")

0 0,4m 0,8m 1,2m 1,6m 2,0m 2,4m 2,8m 3,2m 3,6m 4,0m

On which amount of adjustments would a typical auditor of Audit WPG insist in the described situation? ("m" = "millions")

0 0,4m 0,8m 1,2m 1,6m 2,0m 2,4m 2,8m 3,2m 3,6m 4,0m
Panel C. Auditor’s Intended Negotiation Tactics

The following seven items are employed to elicit the auditors’ intended negotiation tactics. They are elicited in a single page placed in random order after the main dependent variables are elicited. The variable names (in brackets below) used in the Tables and Figures are not part of the instrument the auditors saw.

Possible Approach

I would argue with Medtech AG management to show them the merits of my positions (Contend).

I would use my influence to get my positions accepted by Medtech AG management (Contend).

I would try to find some middle ground to resolve this issue with Medtech AG management (Compromise).

I would try to satisfy the needs of Medtech AG management (Concede).

I would make concessions from my position to Medtech AG management expecting they would make concessions as well (Compromise).

I would use my expertise in accounting to obtain the accounting adjustment that I require from Medtech AG management (Contend).

I would try to satisfy the expectations of Medtech AG management (Concede).

The seven items are elicited on a 0 to 7 scale anchored with “Very Unlikely To Use” and “Very Likely To Use”:

<table>
<thead>
<tr>
<th>Very Unlikely</th>
<th>Very Likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Use</td>
<td>To Use</td>
</tr>
<tr>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

|----|----|----|----|----|----|----|