Mood and Likeability: The Impact of Two Affect Types on Tax Judgment

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MOOD AND LIKEABILITY: THE IMPACT OF TWO AFFECT TYPES ON TAX JUDGMENT

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MOOD AND LIKEABILITY: THE IMPACT OF TWO AFFECT TYPES ON TAX JUDGMENT

ABSTRACT

This study investigates the processing influences of two types of affect, general (mood) and targeted (likeability), on professional tax judgment. Prior tax research has investigated client preference bias, but has not considered the influence of affect. Affect may exacerbate or mitigate this bias, in spite of the fact that affect should be irrelevant to professional judgment. Considerable research in accounting, unrelated to tax, supports the importance of understanding affective inputs in professional judgment, primarily because such influence unknowingly leads to irrational economic judgments. Our experimental results indicate that affect impacts tax judgments, and the type of affect influences the manner in which evidence is processed. Targeted affect influences judgments and evidence evaluation more toward the client preference when the client is likeable rather than dislikeable. Evidence evaluation moderates the impact of likeability on the judgments. Mood also impacts judgments. However, mood influences judgments directly, with no impact on the evaluation of specific evidence cues. Implications are discussed for practice and future research.
MOOD AND LIKEABILITY: THE IMPACT OF TWO AFFECT TYPES ON TAX JUDGMENT

INTRODUCTION

Accounting professionals’ incentives to avoid the consequences of incorrect decisions compete with their incentives to please the client (e.g., see Farmer et al. 1987; Hackenbrack and Nelson 1996; Kadous and Magro 2001). These professionals must reach an indifference point in the perceived positive and negative utilities associated with competing forces to serve their clients and simultaneously be responsible for the welfare of their firms (e.g., Church 1990) and society. The 2005 agreement by KPMG to pay $456 million in fines, restitution and penalties for marketing illegal tax shelters (U.S. Department of Justice 2005) represents an example of how these competing pressures may lead to serious consequences associated with recommending tax positions that do not have reasonable support.¹

Accounting professionals can be expected to be aware of many economic forces that contribute to potential bias; accordingly, they should be able to guard against them. Client risk preference (Duncan et al. 1989; Schisler 1994; Cloyd 1995; Cuccia et al. 1995), client importance in relation to total billings (Reckers et al. 1991), the threat of losing the client (Newberry et al. 1993), and client tenure (Milliron 1988) are all related to tax professionals’ judgment risk (see Roberts 1998 for a review). In addition, broader concerns such as practice risk (Kadous and Magro 2001; Kadous et al. 2008) can be expected to influence their judgment process. For the most part these represent conscious, economic elements in the calculus for balancing risks and rewards that lead to tax professionals’ judgments.

In addition to economic factors, it is important to advance the literature on forces such as client advocacy or client preference that could impact judgments. Prior research shows that client advocacy consistently leads to positions favored by the client (Johnson 1993; Mason and Levy
2001). Additionally, Cloyd and Spilker (1999) find that tax professionals not only search for evidence to support client preferred tax positions but also make decisions in line with the positions that cannot be reasonably supported by the facts. However, Kadous et al. (2008) find that practice risk moderates the impact of client preference such that a high practice risk scenario leads to judgments away from a client preferred position.

Affective factors may also impact judgments and may impact a firm’s client portfolio. For instance, suppose that client likeability or dislikeability influences client retention decisions in a manner that likeable clients receive more “favorable” consideration than dislikeable clients. This may unintentionally result in a disproportionate number of likeable clients in the firm’s portfolio. Client characteristics have been found to lead to differential (and potentially riskier or more aggressive) search strategies (e.g. see Kadous et al. 2008). In other words, affective factors that produce an unknown but systematic influence may be a threat to tax professionals’ judgments as much as known economic influences that receive active consideration.

After considering accounting-related research dealing with affective elements and their potential consequences, Nelson and Tan (2005) call for more studies to determine how these affective conditions influence auditor judgment. Existing research shows that two affect types influence judgments in audit contexts: general affect (e.g., Curtis 2006; Chung et al. 2008; Bierstaker and Cianci 2009) and targeted affect (Kida et al. 2001; Bhattacharjee and Moreno 2002; Moreno et al. 2002). However, research has not determined whether different types of affect influence the processing of evidence related to judgments. Furthermore, affective influences on tax professional judgments have yet to be examined. Both general and targeted affect are likely to have a consequential effect on the client preference effects found in this literature.
This study examines how two affect types, general (mood) and targeted (likeability), differentially influence the evaluation of evidence and judgment of tax professionals. This study makes the following contributions. First, it provides theoretical prediction and empirical tests for the directional influence of both general and targeted affect on complex, ambiguous tax judgment, an area not investigated for affective forces previously in accounting. Second, it provides theoretical prediction and empirical tests for the different paths that general and targeted affect take in influencing tax judgment. Third, it suggests areas for future research as well as practice considerations.

Insert Figure 1 here.

Experimental results support our cognitive model (see Figure 1). Targeted affect (likeability) influences judgments in the predicted direction, and its influence is through its effect on evidence evaluation. That is, evidence is rated as more client-favorable for a likeable client than for a dislikeable client, which in turn, influences likelihood judgments about judicial success of an ambiguous tax situation. Conversely, general affect (mood) influences judgments of judicial success without biasing the weighting of evidence.

**THEORY AND HYPOTHESES**

Affect is used as a generic term for a broad scope of emotions, evaluations, moods and preferences (Fiske and Taylor 1991). Affect may be divided into two distinct categories: targeted affect and general affect. Targeted affect, such as fear or likeability, tends to be directed toward a particular source and reactions are directed at that source. By contrast general affect, such as an uplifted or sad mood, typically arises separately and independently from the act or judgment that it influences (Schwarz 1990; Pelled and Xin 1999).
Research in psychology (e.g., Loewenstein 1996; Mellers 2000) and accounting (Kadous 2001; Kida et al. 2001; Moreno et al. 2002; Chung et al. 2008; Schafer and Schafer 2009) show that affect states influence how people learn, take risks, and balance complex social information to make judgments (e.g., Kuvass and Kaufmann 2004). However, we know of no study distinguishing the processing or judgment influences of targeted affect from broader mood states in accounting decision making. Even in psychology, Peters et al. (2006) call for development of measures that capture both types of affect components for decision making.

We examine one example of targeted affect, likeability, as it relates to a predisposition toward a target person, the client (Zajonc 1980; Fiske and Taylor 1991; Clore et al. 1994). Additionally, we examine mood as a generic affective state that arises separately in time and context but persists to influence seemingly unrelated client tax judgments (Fiske and Taylor 1991). Our dependent variable is the participant’s likelihood judgment that a court will uphold the client’s debatable deduction. Consider a tax professional whose client is a family owned and operated corporation. The tax accountant must decide whether to accept the client’s position to treat a shareholder’s entire pay as compensation or to treat all or part of it as a dividend. The latter treatment results in no deduction for the corporation, an undesirable outcome for the client. Imagine the adviser interacting with an officer to gather information for this judgment. The officer may either be likeable or dislikeable; the adviser may bring a positive mood or a negative mood to the task. How will these emotional effects influence the adviser’s judgment? Theory reviewed below suggests that each will influence the professional’s judgment differently.

**Targeted Affect (Likeability)**

The affective evaluation of others is automatic and immediate (Zajonc 1980). People immediately feel attraction or avoidance toward others (Chen and Bargh 1999). This affective
evaluation can influence subsequent judgments with the likeable person being rated more positively on unrelated judgments (e.g., a person’s skill or performance) than the dislikeable target person (e.g., Regan et al. 1974). Research in settings other than accounting provides persuasive evidence that people judged as likeable often are afforded more favorable treatment that those judged as dislikeable (Cardy and Dobbins 1986; Robbins and DeNisi 1994).

Robbins and DeNisi (1994) investigate and find that targeted affect influences both the cognitive processing of information items (i.e., their weighting) and overall ratings consistent with the valence of the induced affect. They also find that targeted affect influences the ending differences of process items rather than independently impacting the final performance evaluation. This suggests that there may be a path of affect-influencing process elements such as information acquisition, encoding, recall, and weightings that independently influence the overall rating (see Figure 1, paths a and b).

Accounting-related research has focused on outcomes in audit contexts, showing that client likeability impacts audit judgments. Specifically, relatively inexperienced auditors’ judgments are more supportive of a client preferred position when the client is likeable rather than dislikeable. Bhattacharjee and Moreno (2002) find that less experienced auditors rate a client’s inventory obsolescence risk to be higher when they develop a negative affective reaction toward the client as they collect evidence in an inventory obsolescence task. Schafer (2003) reports that less experienced auditors rate fraud likelihood for a company higher when the client’s CEO is dislikeable compared to likeable. He also reports that the inexperienced auditor’s affective-state influences encoding of specific items, raising the possibility of a path relationship from the valence-induced state to the fraud cues to the final judgment.
There are similarities in the practice setting between auditors and tax advisers that suggest the likely impact of affect. Both must reach accord with the client over positions that balance client and society needs and requirements; both deal with clients that vary in likeability, pertinent knowledge, attitude toward their societal obligations, and other dimensions apt to evoke different affective attributes. However, targeted affect’s influence found in an audit context may be different for tax advisers due to the difference in the nature of the roles. Colson (2005) describes the auditor’s role as one of independence in which there is no proprietary interest for which they are the agent. Conversely, tax professionals are expected to act as advocates for their clients and defend client-favored positions (Cuccia and McGill 2000). The advocacy relationship at the heart of tax services runs counter to the independence expectations for auditors (Colson 2005).

Arguments against affective influence include the prospect that persistent findings show client preference bias may swamp any added influence from likeability and that professional and regulatory guidelines aimed at preventing undue client advocacy may serve to alert the tax professional to quash such influence (e.g., AICPA Statement on Standards for Tax Services (AICPA 2000), Treasury Department 2008). However, arguably more stringent professional directives in auditing have not eliminated the effect. The primary argument supporting likeability’s influence includes the nature of many tax judgments and humans’ limited processing space constraints that lead to over-simplified models that use various short-cuts (Tversky and Kahneman, 1974). Many tax scenarios involve judgments fraught with complex considerations and ambiguous guidance. Tax professionals confronted with this setting are apt to find thorough, systematic consideration of all relevant matters against vague benchmarks extremely
challenging, thus allowing emotional factors such as likeability to enter into judgment outcomes that result in more (less) client-favored outcomes for more (less) likeable clients.

Regan et al. (1974) suggest that likeability is *encoded with evidence* during its evaluation and influences future assessments that are based on this evidence. As described above, Robbins and DeNisi (1994) provide empirical evidence that likeability alters the encoding of facts which in turn influences outcome judgments. Although in different contexts from the current study, tax research shows that various factors influence how tax professionals’ weight evidence (e.g., Pei et al. 1990, 1992; Kahle and White 2004). Cloyd and Spilker (1999) show that such biased evaluation leads to unreasonable tax positions. Further, studies repeatedly show that supervisors presented with biased evidential assessments embed the bias in their judgments (e.g., Ricchuite 1999; Ashton and Kennedy 2002; Barrick et al. 2004). Since likeability is targeted toward the client, it is reasonable to expect that likeability will influence the weighting of evidence related to that client. Relying on research findings discussed above, we propose the following hypothesis stated in the alternative, positive form. See Figure 1, paths a and b.

H1: Tax professionals dealing with a likeable client will rate evidence to be more supportive of a client-favored deduction than will tax professionals dealing with a dislikeable client, which in turn, will influence judgments about probabilities for court support of a client-favored ambiguous tax decision.

**General Affect (Mood)**

In this section, we summarize three accounting-related studies involving the influence of mood in a public accounting setting (Curtis, 2006; Chung, Cohen, and Monroe, 2008—CCM in this section *only*; and Cianci and Bierstaker, 2009—CB in this section *only*), and suggest a model that expands CB’s contention that the nature of the task and the task setting must be considered to determine mood’s influence on judgments. We extend CB’s argument by developing a model from social science studies as “fitted” to the public accounting environment with emphasis on tax
judgment to conclude with our hypothesis that tax practitioners in a negative (positive) mood will arrive at judgments more (less) favorable to their clients, and, that mood will directly impact outcome judgments. Specifically, we expect negative (positive) mood to result in judgments showing a greater (lesser) likelihood of a court supporting the client’s favored position which is to treat owner-manager payments as salary and not dividends.

Research findings, both in the three accounting studies (all in the auditing context) and those from social science reflect considerable complexity between mood and judgment outcomes which has led to three over-arching explanations which are not mutually exclusive (Fiske and Taylor 1991; Isen 2000; Peters et al. 2006). Positive mood states are related to feelings of happiness, joy, and cheerfulness. Negative moods are associated with feelings of sadness, woe, and depression. Compared to other affective factors, mood represents a general or global state of mind that arises independently of the current judgment context and, yet, influences it as well as other seemingly unrelated judgments. Thus, mood is broader in its impact than affect targeted toward a specific situation or individual (e.g., likeability, anger).

The first broad explanation of mood’s effect on judgment is affect-as-information. It involves reliance on a global “feeling” that extends to the judgment at hand by significantly biasing the weight placed on information rationally expected to influence judgment. Clore et al. (1994, 381) hold that judges may ask themselves: “How do I feel about it?” The ensuing answer may impact available affective cues and influence the judgment. As positive mood increases, the estimated likelihoods increase for positively valenced events; as negative mood increases, frequency estimates rise for negatively valenced events (Constans and Mathews 1993; DeSteno et al. 2000).
Of the three accounting studies, Curtis (1996) relies most heavily on this explanation to motivate her hypotheses. In the context of either reporting or not reporting a potentially unethical act by an auditing colleague, she finds that negative mood results in lower likelihoods of reporting. The finding is moderated by two of threee questions related to the decision to report (responsibility to report and seriousness of the potentially unethical act).

A second general explanation is that individuals tend to retrieve mood-congruent episodic memories or training that reinforces their mood state primarily due to cognitive processing limitations (Isen et al. 1985; Schwarz and Clore 1988). That is, individuals are likely to recall facts from memory that support a mood-congruent view which results in the retrieved information playing a disproportionate role in the subsequent judgment. CCM provide an example in an accounting context consistent with this explanation. Their study involves an audit senior engaged in the audit of a public company making a subjective judgment about the valuation of software inventory. CCM report that mood influenced the nature of the information retrieved (negative mood-negative valuation information, positive mood-vice versa) which resulted in negative mood leading to a lower, more conservative inventory valuation judgment than other mood states.

A third, heavily documented theoretical explanation lies in individuals’ predilection with hedonism (Isen 2000). That is, no matter the mood state, individuals favor decisions that maintain or improve mood’s initial state (Fiske and Taylor 1991). Isen and Patrick (1983) show that those is a positive mood exercise more risk-averse judgment (preserving mood’s status quo) while those in a negative mood engage in more risk-seeking judgment (attempting to improve the status quo). Among others, Nygren et al. (1996), Mittal and Ross (1998), Kuvass and Kaufmann (2004), and Chuang and Kung (2005) all report findings supporting this view.
To arrive at a directional position on how mood is likely to affect participants in our tax setting, we rely primarily on a modified hedonistic explanation and findings from CB which show that negative (positive) mood is associated with a smaller (larger) downward adjustment to the client’s inventory valuation—a position less likely to irritate the client or the audit superior. Although our task and setting involves a tax scenario, both CB’s and ours invoke client conflict, likelihood judgments of acceptable monetary amounts, and authoritative, but subjective, guidelines to fit an ambiguous judgment. When combined with Erber and Erber’s (2000) modified model of hedonistic behavior, which incorporates elements in the judge’s environment, we submit that we reach a “fit” for the public accounting setting.

A key part of Erber and Erber’s (2000) model holds that judges faced with different mood states react differently to the “actual, imagined, or implied presence of others,” which parallels accountability to both firm superiors and clients in the public accounting environment. Research on accountability shows that accountants’ judgments are sensitive to important others’ expected views (e.g., Church 1990; Lord 1992; Gibbins and Newton 1994; Hatfield 2001). Erber and Erber (2000) point out that mood attenuation is especially sensitive to the presence of those who may be critical of judgments versus those that may be accepting of judgments (Baldwin et al. 1990; Gasper and Clore 1998). These “referent others” are held to be the most salient source of influence for judges, especially for those in a negative mood. In public accounting virtually all judgments are scrutinized critically by superiors and any adjustments or tax judgments not in tune with client-favored positions are apt to be vetted thoroughly.

For judgments discordant with referent others, tax practitioners in negative moods can be expected to seriously consider the prospect of immediate negative feedback from the firm superior or the client and even the potential loss of the client, a risk known to be of great concern.
to tax advisers (Collins et al. 1990). In contrast, positive-mood practitioners are not likely to envision or emphasize negative outcomes to the same extent (Forgas 1995).

Erber and Erber (2000) contend that individuals strive to manage their mood so as to disguise it and its impact on others’ potentially negative reaction, especially when making a conflict-laden judgment. They label this the social constraints model of mood regulation. When combined with other findings, this suggests that judges (especially those in a negative mood) will likely anticipate the referent others’ desired outcome and the potential consequences associated with any judgments they choose, resulting in a decreased emphasis on information that should rationally underlie their judgment.

Freitas and Salovey’s (2000) findings support this expectation. They show that a preponderance of mood-related research findings reconcile with the hedonistic model when judgments are viewed in a temporal setting. People are motivated to feel good in both the long-term and short-term but mood plays a significant role in determining which has the greater influence on judgment. Those in negative moods are likely to have a greater need for immediate gratification because they tend to envision negative potential outcomes far more than people in positive moods (Forgas 1995; Fiedler 2000).

What expectations relevant to information processing flow from the above discussion? Regarding mood, we believe it is reasonable to expect that information processing will assume a subordinate position to consideration of the possible consequences participants perceive to be related to judgment outcomes, particularly those in a negative mood. That is, rather than mood influencing evidence (as we hypothesize for likeability), it is more likely that mood will lead to direct consideration of judgment outcomes. Robbins and DeNisi (1998) make this argument as well, particularly when both likeability and mood are present in the judge’s task setting. They
reinforce the “accountability” aspect of our model by arguing that this dominance of targeted affect over mood is especially likely when the outcome is subject to review by the targeted person (as is the case with our client’s representative). When both likeability and mood are present, Robbins and DeNisi’s (1998) findings support significant influence for likeability’s influence on weights assigned to information recalled. By contrast, their findings show that mood does not have a significant influence on processing.

More generally, support for this view comes not only from the model developed but also from the other explanations set forth to explain mood’s influence. At the extreme, the affect-as-information view leads to a complete neglect of objective processing leaving a straight route to influence outcomes based on expected consequences (see Clore et al. 1994 for a review). With regard to the episodic recall explanation, the position is that positive (negative) moods activate memories contributing to more positive (negative) judgments which also implies de-emphasis on objective assessment of objectively relevant information. Considering this discussion, we offer the following hypothesis stated in the alternative, positive form. See Figure 1, path c.

H2: Tax professionals with varying moods will focus on outcome consequences to the neglect of rationally relevant information. Those induced with a negative mood state will judge higher probabilities for court support of a client-favored ambiguous tax deduction than tax professionals subject to a positive mood state.

**METHOD**

**Participants**

We asked advanced level tax students and practicing CPAs to volunteer to participate in an online, tax-related experiment. Students, many with some accounting experience, were enrolled in either a Master of Taxation program or an upper level advanced tax class. Practicing CPAs were attending a continuing professional education training session facilitated by one of
the authors. We distributed a one page handout and asked the participants to access the experimental materials via an internet web-site using their personal computers.

**Design**

We used a between-subjects’ design with two manipulated variables, participant-induced mood (positive and negative) and targeted affect (likeable and dislikeable client). Once logged on, participants were randomly assigned to one of the four conditions, and automatically referred to a website for that version. They were then provided a general description of the task and asked to proceed.

**Materials**

The on-line instrument included (1) a positive or negative mood-inducing paragraph followed by three questions measuring participants’ mood; (2) instructions that they would be asked to make a judgment concerning reasonable compensation for one of their client’s executives; (3) background facts about the client’s organization, including the extensive overlap of family owners and managers; (4) relevant tax and case law (Table 1 lists the five elements common to the judgment); (5) a transcript of the conversation between a member of the participant’s firm and the client’s treasurer, a family member who was portrayed as either likeable or dislikeable; and (6) a section for recording judgments about the likelihood that a court would uphold the CEO’s entire salary as reasonable compensation; and (7) a section for manipulation checks and demographic information.³

**Independent Variables**

The mood-inducing scenarios consisted of news stories about a local accountant who had experienced a joyful or sorrowful event. Chung et al. (2008), following Johnson and Tversky (1983), used similar scenarios to induce either a good or bad mood in participants which is
common in mood research (Fiske and Taylor 1991). After reading the scenario, the participants responded to three questions using a 1 to 9 scale to describe their moods.

Likeability was manipulated by having participants read the transcript of a conversation between a “knowledgeable” tax professional colleague and the client’s treasurer. The transcripts differed between likeability groups only in the casual conversation between the tax professional and treasurer as the meeting began. The portions of the transcripts containing information relevant to the judgment about the likelihood that a court would uphold the CEO’s salary as reasonable compensation were identical.

**Dependent Variable**

Similar to Johnson (1993) the dependent variable was the participant’s judgment on a 0 to 100% scale that a court would support the full deduction as reasonable compensation if taken on the tax return. The regulations require the tax professional to weigh the evidence in the same manner as would a court of law when resolving an issue (Treas. Reg. 1.6661-3(b)(3)). Using participant judgment about court support should serve as a reasonable proxy for the SSTS (AICPA 2000) requirement that tax professionals must conclude that their positions have a realistic possibility of being sustained on merit. It should also abstract from factors such as risk of audit and client aggressiveness. We also obtained a measure of the dollar amount the participants’ recommended to the client as a deduction.

Authoritative guidelines provided to participants described each element of the “five-factor test” that courts have applied in reasonable compensation cases (Table 1). To gain further insight about participants’ decision processes, we asked them to reply on a 1 (definitely no) to 9 (definitely yes) scale that each of the test’s five dimensions would support a compensation
deduction. Responses provide insight about how mood and likeability enter into the evidence processing of participant judgments.

**RESULTS**

One hundred and eleven participants provided usable data via the online experiment. Participants had an average age of 30, with 20 participants working full-time in accounting, 34 currently working part-time, and 57 not working (full-time student). For those who worked, the average experience in accounting was 46 months with 32 percent of their time spent on tax duties.

**Manipulation Checks**

Manipulation check questions for mood and likeability indicate that the manipulations were successful. After reading the positive or negative mood-inducing paragraph, participants answered three questions about whether they felt happy (sad), uplifted (depressed), and positive (negative) on a 1 to 9 scale. These three were reverse-scaled in the instrument but rescaled so that 1 corresponded to negative mood and 9 to positive mood for each answer. The three answers were averaged which resulted in means of 6.98 and 2.60, respectively, for positive and negative moods (F=245.569, p=.000).

In the debriefing part of the instrument, participants assessed the treasurer’s likeability and their desire to have him as a colleague on a 1 to 9 scale with 1 indicating the most negative reaction and 9 the most positive. The means (and statistical indicators) for these two items, respectively, were 6.05 and 3.61 (F=50.296, p=.000) and 5.91 and 3.41 (F=37.901, p=.000). We used these assessments to categorize participants’ likeability condition.

**Evaluation of Evidence**
Following Johnson (1990; 1993), our experimental materials indicated that courts have repeatedly used a five-element test to decide whether to allow a compensation deduction or insist on treatment as a dividend which would result in double taxation. Table 1 contains a brief description of each element. During the part of the transcript that was identical to all participants, we included information supportive and non-supportive of each of the five elements. In the debriefing part of the instrument, participants used a 1 to 9 scale ranging from “definitely no” to “definitely yes” to rate the extent to which each of the five elements supported a compensation deduction.

Insert Table 1 Here

We compared the means for each of the five evidence elements for likeability and mood to gain insight into whether they contributed differently to the underlying process of reaching a judgment. Panels A and B of Table 1 show each element’s mean rating for each level of likeability and mood used in our study. For likeability, the means for each of the five elements were consistently rated higher for the likeable client than the dislikeable client on the belief that the element supported the deduction as compensation. Data in Table 1 show both likeability treatment groups (as well as both mood treatment groups) rated “role” as the most influential of the five in influencing their judgment. On the other hand, our instrument reveals that there was little discussion of the client’s intention to disguise dividends as compensation, which led both treatment groups in likeable and mood to rate this evidential component the lowest influence of the five factors.

Contrary to client likeability effects, Table 1, Panel B, mood shows no consistent directional or significant impact on any of the five elements. These findings suggest that likeability biases the evaluation of evidence and that mood does not. As discussed in our theory
and hypotheses section, this may well be that when both targeted and general affect are varied in the same study, the former dominates the latter regarding attention to process as we predict.

Finally, we performed a factor analysis on the five evidence elements. The analysis reveals that all five load on one factor, explaining 58.85% of the variance, with factor loadings of greater than .74 for each element (range .74 to .81). These criteria are viewed as sufficient for using one factor (Nunnally 1978). Thus, these elements were combined into a single factor score, “evidence,” for each participant and the single factor was used for the remaining analysis.

Test of Hypotheses

The manipulation for mood was provided to participants prior to the likeability manipulation to approximate the idea that mood is a general feeling brought into the situation by an individual and unrelated to the task at hand. To ensure the validity of the likeability manipulation, we first examined whether mood influenced the likeability judgments made by the participants. Results show that there were no significant effects of mood on likeability judgments. Thus, likeability was not tainted by the prior mood manipulation.

Three tests were run to examine H1 and H2. First, a one-way ANOVA was used to determine whether likeability significantly influenced the evaluation of evidence (Figure 1, path a). Next, a 2x2 ANOVA with evidence and mood was run to examine whether evidence and mood influenced participants’ judgments related to the likelihood a court would support the full compensation deduction (paths b and c). Finally, Baron and Kenny’s (1986) four condition procedure for assessing mediated models was applied to complete the test of H1.

Results indicate support for H1 that likeability significantly influences tax judgments through the biased evaluation of evidence. As mentioned, Table 1 shows that participants rated the evidence more supportive of a client-favored deduction for the likeable client than the
dislikeable client. Table 2, Panel A provides the ANOVA results for the significant influence of likeability on evidence evaluation \( (F=5.44, p=.011 \text{ one tailed}) \). As indicated in Panel B, the means of the participant’s likelihood judgments are provided by likeability condition with the mean expectation that the court would support the entire deduction as compensation for the likeable client at 52.00 percent and the corresponding mean for the dislikeable client at 42.30 percent.

Insert Table 2 Here

Table 3, Panel A provides the ANOVA results for the significant influence of evidence \( (F=131.68, p<.000) \) and mood \( (F=4.61, p=.017 \text{ one tailed}) \) on likelihood judgments (paths b and c). The results are in the predicted directions. The evidence is positively correlated with the judgment which indicates that the more supportive the participant rated the evidence for the client’s position, the higher their likelihood judgment of the court’s support. Panel B reinforces this outcome as the mean likelihood judgment in the negative mood state is 52.00 and 44.40 in the positive mood state.

Insert Table 3 Here

Finally, Baron and Kenny’s (1986) four conditions of mediation are met. The first two conditions are satisfied with the above results (Figure 1, paths a and b). The final two conditions require that likeability has a significant effect directly on the likelihood judgment when evidence is not included, and when controlling for evidence, the previously significant relationship between likeability and participants’ likelihood judgments becomes insignificant. These conditions are met \( (F=3.47, p<.033 \text{ one-tailed}; F=.012, p=.912 \text{ two-tailed}, \text{ respectively}) \). Similar testing for mood showed no mediation on outcome judgment. Taken together, we find support for H1 and H2, and our model (see Figure 2).
To explore whether probability ratings of judicial support are associated with participants’ recommended dollar amounts, we examine their correlation. We find that probability ratings of judicial support are significantly and positively correlated \((r=.59, p<.000)\) providing evidence that participants who rated the court as more likely to support the full deduction made higher dollar recommendations to the client.

We also tested various experience measures (e.g., months of experience, number of times completing similar task, a variable reflecting the product of the proportion of time spent on tax activities and months of experience, firm-type of experience, and a dichotomous variable indicating whether the participant had any tax experience) as potential covariates. The covariate for whether the participant had ever done work in the tax area was the only significant covariate \((p=.049, \text{ two-tailed})\). Those who had previous tax experience rated the court more likely to support the deduction \((\text{mean}=51.90)\) than those who had no tax experience \((\text{mean 44.80})\). When it is included in the overall model, the remaining variables in the model remain inferentially identical to those reported previously with no interaction effects. This result is consistent with the notion that individuals who have more experience in the tax area may be more aware of the advocacy role of tax advisers.

**DISCUSSION AND CONCLUSIONS**

Our study is the first to investigate the influence of either general affect (mood) or targeted affect (client likeability) on tax judgment. Further, it is the first in accounting to study the competing influence of both. We develop a model illustrating the processing differences between general and targeted affect. With regard to client likeability, theory suggests a positive relationship between likeability and judgments favorable to the target person. Our findings show
that this pattern holds. That is, judgments of the likelihood of court support for a preferred position is higher for likeable (as compared to dislikeable) clients. This likeability bias is consistent with prior research in audit. Our study also extends prior research by finding that the weights assigned to evidence about the likelihood of support fully mediate client likeability influence on adviser judgment. In other words, evidence was weighted more (un)favorably for (dis)likeable clients, which in turn accounted entirely for the effect of likeability on judgment about expected judicial support. This finding suggests a potentially complex problem for firms wishing to avoid bias due to targeted affect as the evidence documented in the working papers may be biased. Judgments by reviewers at higher levels are likely to be affected adversely as their judgments depend on both the objectivity of the evidence in the workpapers and the initial judgments of staff to inform their own judgments (e.g., Ricchiute 1999; Ashton and Kennedy 2002).

Contrary to targeted affect, our results indicate that general affect (mood) does not influence evidence, but instead influences judgments directly. Specifically, findings indicate no mediating effect of mood by evidence weighting that rationally underlies judgment. Our model (see Figure 1) anticipates this path of direct influence, which seems reasonable when one considers that mood represents a broader, less focused affect dimension than likeability. This pattern is consistent with findings from the performance assessment literature which shows that when the two affects are considered simultaneously, targeted affect (ratee likeability) dominates general effect (mood) (Robbins and DeNisi 1998). As to the direction of influence, findings indicate that negative (positive) mood generates more (less) favorable assessments of judicial support for the maximum deduction, a position favorable to the client. Mood’s directional influence on judgment is in harmony with our model developed primarily from Erber and Erber
(2000) which includes judgment context. The directional findings of negative mood’s impact on judgment are also consistent with those of Cianci and Bierstaker (2009) which suggest that practicing auditors’ induced with a negative (as opposed to a positive) mood select more aggressive, more client-favorable audited amounts. Using a similar task, Chung et al. (2008) find different directional influences of mood on amounts; i.e., negative mood induction results in more conservative judgments. Cianci and Bierstaker (2009) contend that the nature and context of the task combined with specific wording to be the likely explanations of the differences between these two similar audit scenarios.

Our results add to the tax judgment literature dealing with bias toward client-favored positions. Because both affect factors represent largely non-economic forces, tax professionals are unlikely to be aware of, or protect against, either of these. Thus, the impact of these non-economic biases may represent danger to quality judgment equal to or greater than economic effects. For example, if likeable clients are unknowingly and consistently favored over dislikeable clients, then repeated tax judgments over several years and over many favored clients may lead to a firm portfolio that gradually evolves to a riskier profile than desired. That is, more aggressive or risky recommendations may be made unknowingly for these clients. Similarly, if a firm’s review procedures do not protect adequately against tax professionals endowed with a negative mood, more risky judgments than desired may result. Alternatively, it is possible that these affective forces may act in the opposite direction; that is, a firm’s client portfolio may become too conservative which may reduce overall firm prosperity making it unable to attract and retain the level of professional expertise enjoyed by other firms.

In the context of our findings, mood’s effect on judgment bias may represent a less severe threat for accounting firms than client likeability’s effect. That evidence does not mediate
mood’s influence on judgment suggests that evidence present in the workpapers will not be biased due to mood. Accordingly, firm superiors who review the papers will likely see unadulterated evidence, which may free them from this source of bias. However, since both affects ultimately result in biased judgment—mood directly, likeability indirectly—reviewers are likely to suffer bias in their judgment from either or both sources (e.g., Barrick et al. 2004). Traditional techniques like decision aids may help overcome this bias.

Our study relies on a single initial client interview in an initial engagement to establish the likeability condition; the relationship is short term. Drawing from research other than our study, likeability’s intensity may build up over time becoming more influential relative to mood’s influence which is more transitory (Robbins and DeNisi, 1998). When related to the pattern of influence in our results, likeability’s growing intensity may well increase the biased weights placed on evidence and result in ever greater judgment bias or the dilution of mood’s influence altogether. Client likeability is typically generated within the purview of the firm and, based on our experience, is generally well known among team members. On the other hand because mood typically originates from events outside of and unknown to the firm, it may prove more subtle and harder to control. Firms might be able to mitigate or eliminate the influence of mood or client likeability by observing colleagues more carefully, training tax advisers to monitor their own moods (Bakamitsos 2006), inducing deliberation about the information underlying the judgment (Schafer and Schafer 2009), redirecting the genesis of their mood (Clore and Huntsinger 2007).

Other Future Research

Because our study is the first in a tax judgment setting to involve either general or targeted affect and the first in accounting to involve both affect types, there are more ideas about
future research than can be covered here (or in the above section). Let us start with the limitation of participant experience. When placed into our larger model, experience showed no meaningful influence on results related to likeability or mood. Some likeability findings in accounting contexts (e.g., Bhattacharjee and Moreno, 2002), suggest that experience may play a role and thus militate for more experienced participants. Mood findings seem more robust to the extent that the practicing auditors in Cianci and Bierstaker (2009) reacted similarly to our participants. Nevertheless, working with more experienced tax practitioners would more firmly establish the linkages detected in this study. Our model’s rationale and our study’s findings are contained in our theory and hypotheses section, summarized in Figure 1, and discussed generally above. It is important to appreciate that it is one model and more work is needed to establish its validity.

Client likelihood’s directional influence on client-favorable judgment is relatively clear, but the path proposed to influence evidence is less clear. In a different context, Bhattacharjee and Moreno (2002) report evidence suggesting the path shown as does social science research (Cardy and Dobbins 1986; Robbins and DeNisi 1994). As to likeability’s role when mood is present, Robbins and DeNisi (1998) show that likeability plays the dominant role which suggests that it will influence evidence and diminish mood’s impact on evidence. More studies combining likeability and mood, particularly with practitioners, would be quite useful.

Predicting mood’s directional influence and strength on judgment is more complex as is its expected path. As noted in the preceding section, Chung et al (2008) and Cianci and Bierstaker (2009) report conflicting directional results. Like Cianci and Bierstaker (2009), we believe that context and careful wording are critical to mood’s influence. In particular as Erber and Erber (2000) suggest, the presence of an implied referent (e.g., the client, the tax superior, or
others to whom the participant is accountable) indicate the need for richer experimental settings to determine the direction and strength of these competing factors.

ENDNOTES

1 The Department of Justice ultimately dropped the case against the majority of the KPMG professionals, but the publicity of the case and the sentencing of two former KPMG professionals (The New York Times 2009) does heighten the awareness of risk to public accounting professionals.

2 Recent legislation provides even more restrictive rules by requiring that recommended positions should attain the “more likely than not” standard of being sustained on its merits or be disclosed on the tax return (Small Business and Work Opportunity Act of 2007; IRS Notice 2008-13). The standard was retroactively changed to “substantial authority” by P.L. 110-343 (The Emergency Economic Stabilization Act of 2008) for transactions other than listed, reportable, and tax shelter transactions.

3 The mood-inducing materials and scales are adapted from Chung et al. (2008), the tax case from Johnson (1990), and the likeability manipulations were modeled after Bhattacharjee and Moreno (2002) and Schafer (2003). We express our gratitude to all who granted permission for use. A copy of the entire instrument is available from the first author.
REFERENCES


FIGURE 1

Proposed Processing Influences of Targeted General Affect

Targeted Affect \rightarrow \text{Evidence} \stackrel{Path \ a}{\longrightarrow} \text{Tax Judgment}

\text{Targeted Affect} \rightarrow \text{General Affect} \stackrel{Path \ c}{\longrightarrow} \text{Tax Judgment}
Likeability represents the targeted affect condition (likeable or dislikeable client) based on the participants’ view of the client after reading a transcript between their colleague and the client.

F1-F5 represent the participants’ ratings of the five elements used by courts in reasonable compensation cases. Participants rated the relevance of five factors in supporting a compensation deduction on a scale from 1 (definitely no) to 9 (definitely yes).

Evidence Supporting Client represents the combination of F1-F5 into a single factor.

Mood was assigned to participants based on their reading of a positive or negative mood-inducing scenario.

Probability of Judicial Support is participants’ probability judgment (0-100%) that a court would support a full deduction of $600,000 as compensation.
TABLE 1  
Participant Means (Standard Deviations) for Elements Impacting Judgment

Panel A: Elements Impacting Decision by Targeted Affect, Likeability

<table>
<thead>
<tr>
<th>Relevant Elements</th>
<th>Likeable Group</th>
<th>Dislikeable Group</th>
<th>df</th>
<th>t-statistic</th>
<th>p-value&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Employee’s role in the company</td>
<td>6.04 (2.38)</td>
<td>5.68 (2.41)</td>
<td>109</td>
<td>.775</td>
<td>.440</td>
</tr>
<tr>
<td>2. Comparison of salary with similar employees</td>
<td>5.83 (2.19)</td>
<td>4.89 (2.27)</td>
<td>109</td>
<td>2.215</td>
<td>.029</td>
</tr>
<tr>
<td>3. Character and condition of company</td>
<td>5.98 (2.19)</td>
<td>4.72 (2.41)</td>
<td>109</td>
<td>2.880</td>
<td>.005</td>
</tr>
<tr>
<td>4. Incentive to disguise a dividend as compensation</td>
<td>3.50 (2.43)</td>
<td>3.14 (2.07)</td>
<td>109</td>
<td>.840</td>
<td>.403</td>
</tr>
<tr>
<td>5. Extent to which compensation was paid pursuant to a structured, consistent plan</td>
<td>5.78 (2.44)</td>
<td>4.46 (2.80)</td>
<td>109</td>
<td>2.647</td>
<td>.009</td>
</tr>
</tbody>
</table>

Panel B: Factors Impacting Decision by General Affect, Mood

<table>
<thead>
<tr>
<th>Relevant Factors</th>
<th>Positive Mood</th>
<th>Negative Mood</th>
<th>df</th>
<th>t-statistic</th>
<th>p-value&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Employee’s role in the company</td>
<td>5.66 (2.36)</td>
<td>6.08 (2.43)</td>
<td>109</td>
<td>-.924</td>
<td>.358</td>
</tr>
<tr>
<td>2. Comparison of salary with similar employees</td>
<td>5.45 (2.29)</td>
<td>5.25 (2.27)</td>
<td>109</td>
<td>.469</td>
<td>.640</td>
</tr>
<tr>
<td>3. Character and condition of company</td>
<td>5.24 (2.38)</td>
<td>5.43 (2.41)</td>
<td>109</td>
<td>-.424</td>
<td>.673</td>
</tr>
<tr>
<td>4. Incentive to disguise a dividend as compensation</td>
<td>3.36 (2.40)</td>
<td>3.26 (2.10)</td>
<td>109</td>
<td>.228</td>
<td>.820</td>
</tr>
<tr>
<td>5. Extent to which compensation was paid pursuant to a structured, consistent plan</td>
<td>4.97 (2.70)</td>
<td>5.25 (2.71)</td>
<td>109</td>
<td>-.544</td>
<td>.588</td>
</tr>
</tbody>
</table>

<sup>a</sup>p-values are two-tailed  
<sup>b</sup>Participants rated the relevance of five factors in supporting a compensation deduction on a scale from 1 (definitely no) to 9 (definitely yes).  

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TABLE 2
Influence of Targeted Affect (Likeability) on Evidence Evaluation and Overall Judgment

Panel A: Analysis of Variance for likeability on evidence evaluation\(^a\)

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-value</th>
<th>p-value (one-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Targeted Affect (Likeability)</td>
<td>1</td>
<td>5.220</td>
<td>5.44</td>
<td>.011</td>
</tr>
</tbody>
</table>

Panel B: Mean likelihood judgment by likeability condition\(^b\)

<table>
<thead>
<tr>
<th>Targeted Affect Condition</th>
<th>n</th>
<th>Mean (standard deviation)(^c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likeable</td>
<td>54</td>
<td>52.00 (3.80)</td>
</tr>
<tr>
<td>Dislikeable</td>
<td>57</td>
<td>42.30 (3.70)</td>
</tr>
</tbody>
</table>

\(^a\) The dependent variable is the factor score for the participants’ ratings of the five elements used by courts in reasonable compensation cases.

\(^b\) The dependent variable is the probability judgment (0-100%) that a court would support a full deduction of $600,000 as compensation.

\(^c\) The means are significantly different at p=.033, one tailed.
TABLE 3
Influence of Evidence Evaluation and Mood on Overall Judgment

Panel A: Analysis of Variance for evidence and mood on likelihood judgment\textsuperscript{a}

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-value</th>
<th>p-value (one-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence</td>
<td>1</td>
<td>4.437</td>
<td>131.68</td>
<td>&lt;.000</td>
</tr>
<tr>
<td>Mood</td>
<td>1</td>
<td>.155</td>
<td>4.61</td>
<td>.017</td>
</tr>
</tbody>
</table>

Panel B: Mean of likelihood judgment by mood condition\textsuperscript{a}

<table>
<thead>
<tr>
<th>Condition</th>
<th>n</th>
<th>Mean (standard deviation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>57</td>
<td>44.40 (2.40)</td>
</tr>
<tr>
<td>Negative</td>
<td>51</td>
<td>52.00 (2.60)</td>
</tr>
</tbody>
</table>

\textsuperscript{a}The dependent variable is the probability judgment (0-100\%) that a court would support a full deduction of $600,000 as compensation.