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AUDITING UNDER THE INFLUENCE: THE ROLE OF CLIENT GENDER IN AUDIT NEGOTIATIONS

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by
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SIGNATURE PAGE

DEDICATION

For my sons, Cole and Austin. May you always seek knowledge and follow your dreams.

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ABSTRACT

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by
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Client characteristics, one antecedent to auditor judgments (Hurtt, et al. 2013), have considerable influence on auditor-client negotiations of proposed audit adjustments, and ultimately audit quality. Client gender is one specific characteristic that has received recent attention for its influence on financial statement conservatism and audit fees. However, there is little empirical evidence on the influence of client gender on auditor-client negotiation outcomes. Client gender is expected to influence auditor judgments such that auditors are expected to propose lower audit adjustments to male (vs. female) clients due to the lower source credibility typically assigned to females (Kray, Galinsky, & Thompson, 2002; Kray, Thompson, & Galinsky, 2001). Further, this effect should be magnified when clients use a contentious (vs. concessionary) negotiation style as females have been found to incur social and economic penalties in other disciplines (known as the backlash effect) when they act outside expected gender norms.

A 2 x 2 between-subjects experiment was used to test the influence of client gender and negotiation style on the likelihood of auditors to propose an audit adjustment. Results indicate that contentious (vs. concessionary) tactics result in a lower likelihood of a proposed audit adjustment for male CFOs, but not for female CFOs. Further, female CFOs who use a contentious negotiation style experience significant backlash, resulting in a higher likelihood of a proposed audit adjustment compared to male CFOs. Contrary to research in other disciplines, CFO gender did not impact the CFO's perceived credibility. Instead, the CFO's use of contentious tactics resulted in lower perceived credibility than that of concessionary tactics across both CFO genders. However, results do not support that CFO credibility mediates the effect of CFO gender and negotiation style on auditor judgments.

This study's findings have important implications for practitioners, researchers, and policymakers. The results highlight an auditors' susceptibility to reducing proposed audit adjustments due to client pressure from male CFOs and, conversely, the use of concessionary tactics by female CFOs. Further, the conservative financial reporting noted with female CFOs in the archival literature may be partially explained by the negotiation strategies used by these CFOs in finalizing audit adjustments.

Keywords: Judgment and decision making, source credibility, auditor biases, gender, pressure, negotiation

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CHAPTER 1 INTRODUCTION

This study examines the effect of CFO gender and client negotiation style on auditor judgments. Further, I examine whether client gender interacts with the effects of two common client negotiation styles, contentious or concessionary, on proposed audit adjustments. Gibbins, Salterio, & Webb (2001) note that the characteristics of those involved in a negotiation influence the negotiation outcome and process. One such characteristic, management gender has received recent attention for its influence on financial statement conservatism and audit fees. Research finds that firms with female CFOs have more conservative financial statements, but audit fees are higher with a female CEO (Francis, Hasan, Park, & Wu, 2015; Ho, Li, Tam, & Zhang, 2015). These results suggest that firms view females as riskier than males and/or that auditors are more successful at negotiating more conservative audit adjustments with female CEOs. While much is known about gender differences in general, there is little empirical evidence on how client gender influences audit judgments, or how client gender interacts with other factors in the audit environment, such as client negotiation style.

Client gender is expected to influence proposed audit adjustments through its effect on source credibility, a multi-dimensional construct consisting of competence, trustworthiness, and goodwill assessments (McCroskey & Teven, 1999). Generally, males are viewed as more competent than females (Foschi, 2000; Propp, 1995) while females are viewed as more communal and considerate (Heilman, 2012; Ridgeway, 2001). Gender stereotypes create expectations regarding performance and ability

(Ridgeway, 2001) even with evidence to the contrary (Dunning & Sherman, 1997). Since audit guidance requires auditors to consider the competence of client personnel during audit procedures and evaluation of audit evidence (Public Company Accounting Oversight Board (PCAOB), 2007), it is expected that auditors will view evidence presented by males to be more credible than evidence presented by females resulting in lower proposed audit adjustments for male CFOs, regardless of negotiation style used.

Two main negotiation strategies have been examined in the audit literature: problem-solving and contentious. Problem-solving strategies, such as concessionary and collaborative, are defined as those where the client is open and willing to have discussions surrounding audit adjustments (Fu, Tan, & Zhang, 2011; Hatfield, Jackson, & Vandervelde, 2011; Ng & Tan, 2003). Conversely, contentious strategies are pressure-based, hostile, and ultimately reduce goodwill between the parties (Trotman et al 2005). In an audit negotiation, management often pressures auditors to reduce or eliminate proposed audit adjustments, or may even threaten to find a new auditor (DeZoort & Lord, 1997; Fu et al., 2011; Hatfield, Agoglia, & Sanchez, 2008; Hatfield et al., 2011; Kadous, Magro, & Spilker, 2008; Trotman, Wright, & Wright, 2005, 2009).

The characteristics of the client exacting the pressure are important in the success of client pressure (Koch & Salterio, 2017). Research in other disciplines suggests that client gender can moderate the influence of other factors on judgments (Foschi, 2000; Propp, 1995; Ridgeway, 2001). As such, client gender is expected to influence the success of client negotiation style on auditor judgments. The results of a meta-analysis examining negotiation gender differences noted that men fared better in negotiations (Stuhlmacher & Walters, 1999), which may partially be a result of the behavioral stereotypes expected of men and women. Further, gender stereotypes can even result in judgment backlash when individuals behave outside gender norms (Rudman & Glick, 2001; Amanatullah & Tinsley, 2013; Brett & Thompson, 2016).[1] Because contentious negotiations are direct, forceful, and outside of the communal stereotype, auditors are expected to propose more conservative (larger) adjustments for female clients than male clients during contentious negotiations, exhibiting a backlash effect. While prior studies (Fu et al., 2011; Hatfield et al., 2011) have found that contentious negotiation styles are more successful than concessionary styles at reducing the proposed audit adjustment, these studies did not consider the gender of the client. Further, studies examining the independent effectiveness of either strategy do not consider whether the effectiveness varies based on gender of the client.

A 2 x 2 between-subjects experiment was conducted where client gender (male vs. female) and client negotiating style (contentious vs. concessionary) were randomly manipulated. Eighty-two auditors (at the rank of supervisor or higher) assessed the likelihood that they would propose an audit adjustment, provided the dollar amount of the proposed adjustment, provided the minimum adjustment required for a clean opinion, and answered questions about the client's credibility, competence and trustworthiness. Contrast results show that, within CFO gender, auditors are less likely to propose an audit adjustment for male CFOs when the CFO uses a contentious (vs. concessionary) negotiation style. However, this result is not supported for female CFOs, indicating that the results from prior research on the effectiveness of contentious negotiation strategies do not hold for female CFOs. Further, results indicate that auditors are more likely to

[1] Backlash is defined as a negative reaction that results in negative social judgments, such as decreased likeability and/or economic penalties (Amanatullah & Tinsley, 2013; Rudman, 1998).

propose an audit adjustment for a female CFO compared to a male CFO when the CFO uses a contentious negotiation style. This finding provides evidence that female CFOs receive backlash for acting outside gender norms.

An examination of CFO credibility ratings indicates that auditors view CFOs who use a contentious negotiation style as less credible than those who use a concessionary negotiation style. In contrast to literature in other disciplines, the CFO's gender does not influence perceived credibility. Further, while higher assessed credibility was found to result in lower proposed audit adjustments, credibility does not mediate the effects of gender and negotiation on proposed audit adjustments. These findings suggest that, while gender and negotiation style are important influences on auditor judgments, these effects do not appear to be driven by credibility.

Further examination of the three dimensions of credibility indicates that competence and trustworthiness are related to the overall credibility rating of the CFO. That is, auditors consider these two dimensions when rating the CFO on the single-item measure of credibility. On the other hand, goodwill did not impact the overall credibility assessment. A regression of the three credibility dimensions on the likelihood to propose an audit adjustment indicates all three dimensions are significant predictors of the proposed audit judgment. Thus, while goodwill perceptions may not be considered in an overall credibility assessment, it is related to auditor judgments. Future research should examine whether goodwill should be separately measured since it is not captured by the single-item credibility measure used in most audit research.

This study is the first to examine the role of client gender on auditor-client negotiation outcomes. This paper answers the call to understand the impact of biases in negotiation settings, how biases influence negotiation outcomes (Hatfield & Mullis, 2015) and what factors influence perceived credibility (Maksymov, 2015). In doing so, this study contributes to the literature in several ways. First, the results show that client gender does play a role in how auditors determine proposed audit adjustments. Since client gender interacts with client negotiation style on proposed audit adjustments, research needs to further consider whether and how client gender may influence other situational factors in an audit.

Second, this study complements previous findings on female auditor conservatism (Gul, Wu, & Yang, 2013; Ho et al., 2015; Ittonen & Peni, 2012; Ittonen, Vähämaa, & Vähämaa, 2013) by finding that gender interacts with variables in the audit environment. The conservative financial reporting noted with female CFOs may be partially explained by the negotiation strategies used by these CFOs in finalizing audit adjustments. Since auditors were found to negotiate more conservative audit adjustments with female CFOs who use a contentious negotiation style, it is possible that this translates to more conservative financial statements for female CFOs. Future research should explore which negotiation tactics are more likely to be used by male and female CFOs to better understand this link. Since client gender and negotiation style influence proposed audit adjustments, audit firms should consider training to make auditors aware of how these factors can influence client credibility and audit judgments.

The remainder of this paper is organized as follows. Chapter 2 reviews prior literature and develops the study's hypotheses. Chapter 3 discusses the research method that was used to test the relationship of client gender and client pressure. Chapter 4 discusses the results and Chapter 5 discusses the conclusions, limitations, and implications of the results.

CHAPTER 2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Audit quality depends on auditors thoroughly examining the audit evidence, successfully negotiating with client management, and proposing relevant audit adjustments (Hurtt, Brown-Liburd, Earley, & Krishnamoorthy, 2013). Negotiations with client management are guided by several factors, including the expected norms and self-interests of the negotiating parties (Raiffa, 1985; Sun et al., 2015). Similarly, Kramer, Pommerenke, & Newton (1993) reiterate that outcomes are influenced by the social environment of the negotiation. Research has established that client factors, such as client affinity (Koch & Salterio, 2017), client retention risk (Hatfield et al., 2008), and client tenure (Wright & Wright, 1997) influence auditor judgments. Thus, the characteristics of those involved in the audit process can influence proposed audit adjustments and ultimately audit quality (Brown & Wright, 2008; Gibbins et al., 2001). However, extant research does not examine how client gender impacts audit negotiation outcomes, even though clear gender differences have been found to influence judgments in other disciplines (i.e., Propp, 1995).

Gender and Source Credibility

People tend to group strangers into categories, including social categories such as gender, when forming initial judgments (Dunning & Sherman, 1997; Propp, 1995). Social categories are assigned stereotypes, which are often based on expectations and norms, and lead individuals to make tacit inferences (Dunning & Sherman, 1997).

Gender stereotypes are heavily reliant on what others see on a daily basis; if women are seen in lower status roles, then men are assigned higher status and authority (Eagly & Steffen, 1984). Those of a lower status will have even successful results scrutinized since it is inconsistent with their status and they will be held to a stricter standard (Foschi, 2000). As people interact and social practices develop, gender inequality perpetuates stereotypes, maintaining a hierarchical disadvantaged system (Ridgeway, 2001). For example, when women are in leadership roles, some attribute it to the need to meet gender diversity targets and not because of ability, which further preserves the stereotype (Perdue, 2017).

Dunning and Sherman (1997) find that if information is ambiguous, stereotypes are more likely to influence how an individual processes information and draws conclusions. In these situations, stereotypes cause individuals to alter their impressions of others and disregard tacit information about the situation (Dunning and Sherman, 1997; Kahneman, 2013). Many audit adjustments, such as determining inventory obsolescence or other reserves, are subjective and are often negotiated with the client. Thus, a client's gender may generate stereotypes that influence how an auditor processes information obtained from that client.

Ridgeway (2001) argues that gender stereotypes create expectations regarding gender performance and ability. Performance expectations are often assigned to another person based on gender even when evidence to the contrary exists (Dunning & Sherman, 1997). Furthermore, it takes more evidence to prove competence for a member of a lower-status group than a higher status group (Biernat & Kobrynowicz, 1997). Competence and leadership ability are typically associated with men (Foschi, 2000).

These stereotypes stem from the traditional gender roles of bread-winning for men and domestic activities for women (Eagly, 1987). Men are thought to be more agentic, competent, ambitious, and task-focused, while women are viewed as more communal, kind, caring, and considerate (Heilman, 2012; Ridgeway, 2001). In addition, males are typically assigned a higher source credibility than females which leads to a greater perceived validity of information introduced by a male (Propp, 1995). Specific to auditing, Anderson et al. (1994) find female audit seniors are perceived as less likely to succeed by their peers. Audit managers intolerant of ambiguity rate female audit seniors' performance lower than male audit seniors and are less supportive of future job assignments (Johnson et al., 1998). These results provide support that auditors' evaluations of their peers' ability and competence are influenced by the peer's gender. Furthermore, the lack of women in leadership roles in public accounting and the corporate executive suite further perpetuates the stereotypes.

Source credibility describes the communicator's characteristics that impact the receiver's judgment and acceptance of a message (Ohanian, 1990). Two factors that impact the communicator's credibility and subsequent perception of the message are expertise (competence) and trustworthiness (Hovland et al., 1953; Maksymov, 2015; McCroskey, 1966). Expertise is influenced by training, experience, and ability (Birnbaum & Stegner, 1979; Libby & Tan, 1994) but is largely dependent on how the source is perceived (Hovland et al., 1953). Trustworthiness depends on the degree that the source is considered to make valid assertions (Hovland et al., 1953). Both expertise and trustworthiness judgments are determined by the evaluator's perception of these characteristics.

Most audit literature uses competence or trustworthiness as the primary indicator of management credibility (see Maksymov (2015) for a review) with only a few papers measuring both competence and trustworthiness as indicators of credibility. In any case, client gender is expected to influence audit judgments due to its influence on both competence and, in turn, credibility. Gender has been shown to influence perceptions regarding source credibility in non-audit decision-making settings (Propp, 1995). Source credibility has important implications on audit judgments as auditors are required to consider the competence, a component of credibility, of client personnel in assessing the reliability of information provided by the client (PCAOB, 2007). For example, literature suggests that auditors place more weight on sources they believe are more competent (Anderson et al., 1994; Bamber, 1983). Conversely, auditors will assign less weight to evidence that has lower credibility (e.g., Hurtt et al., 2013; Kizirian et al., 2005; Krishnamoorthy & Wright, 1999). When auditors perceive management as competent, they tend to lower their professional skepticism and give management the benefit of the doubt (Maksymov, 2015). Furthermore, auditors consider management competence when evaluating client-provided information (Anderson et al., 1994). Similarly, Rebele, Heintz, and Briden (1988) find that higher levels of competence lead the auditor to place more weight on management-provided evidence. Thus, a higher credibility source yields a greater perceived validity (Propp, 1995). These studies highlight the importance of understanding the characteristics of the source and how they impact auditor judgments, especially when evaluating accounts that are estimates or reserves since management is often the source of this information.

Consistent with the stereotypes discussed above, men are expected to be viewed as more competent, and in turn, more credible than women. Furthermore, communications should be considered to be more valid when they come from more credible sources (Chaiken & Maheswaran, 1994). Therefore, in an auditor-client negotiation related to a proposed audit adjustment, justification should be viewed as more valid when it is provided by a male CFO (vs. a female CFO). Thus, auditors are expected to be less likely to propose an audit adjustment for male CFOs than female CFOs. The following hypothesis is presented in directional form:

> H1: Auditors will be less likely to propose an audit adjustment when negotiating with a male CFO compared to a female CFO.

Negotiation Tactics

Negotiating with clients about proposed audit adjustments is common, especially in ambiguous situations (Gibbins, McCracken, & Salterio, 2005; Gibbins et al., 2001). Furthermore, negotiation outcomes are a function of the client, client provided evidence, how the evidence is presented, and how the auditor interprets the information. Negotiations are guided by numerous factors including norms, expectations, and self-interests (Raiffa, 1985). There is an "art" to a successful negotiation, and it includes interpersonal skills, bargaining ploys, the ability to convince and be convinced, and the wisdom to know when to employ these tactics (Raiffa, 1985). Thus, the client's negotiation style and other client characteristics influence proposed audit adjustments and requests for evidence (Bennett & Hatfield, 2013).

Four general negotiation strategies that have been identified in the literature: yielding, inaction, problem-solving, and contending (Bame-Aldred & Kida, 2007). Yielding tactics are where the negotiator gives up the position, while inaction tactics involve one party acquiescing and results in success for the other party (Bame-Aldred & Kida, 2007). Problem-solving strategies include collaborative and concessionary strategies that involve the negotiating parties working toward a "win-win" solution. They are rooted in establishing trust between the parties (Trotman et al. 2005). On the other hand, contending tactics involve the negotiator extracting as much of the reward of the negotiation as possible by using threats, rewards, and/or positional commitments (i.e., refusing to move from the position) (Bame-Aldred & Kida, 2007). Contending tactics are characterized by a "win-lose" orientation, are more pressure-based, and ultimately reduce goodwill between the parties (Trotman et al., 2005). A negotiator can use one or a combination of tactics to try to achieve a desired outcome (Bame-Aldred & Kida, 2007). The auditing literature has primarily focused on concessionary and contending tactics, finding that both tactics when used by clients can be successful in reducing audit adjustments.

Concessionary strategies are based on the expectation of reciprocity, which has been described as a social norm or expectation to make a concession when the other party has made a concession (Hatfield et al., 2008; Hatfield, Houston, Stefaniak, & Usrey, 2010). Concessionary tactics can positively influence trust and goodwill, which in turn, influence perceptions regarding credibility (Citera, Beauregard, & Mitsuya, 2005). Supporting the effectiveness of this strategy, Ng and Tan (2003) find when a concession is made by the client during a negotiation, the auditors' likelihood to concede to the client's preferred accounting treatment is higher than when clients make no concession (do not fluctuate from their initial offer). Similarly, Hatfield et al. (2010) find that in the presence of a prior client concession, auditors have a lower initial negotiation position. From a client perspective, when *auditors* use cooperative (vs. contentious) communication style, clients are more likely to make concessions (Perreault and Kida 2011). However, prior research is not consistent as Bergner, Peffer, & Ramsay (2016) find that auditors are no more likely to waive a *material* audit adjustment when clients use (vs. do not use) concessionary tactics. The Berger et al. (2016) results support the idea that auditors may waive immaterial adjustments with the intention of influencing client acceptance of more material proposed adjustments (see Sanchez et al. 2007; Hatfield et al. 2008).

While auditors have a professional duty to ensure the financials are fairly stated, economic factors and client retention concerns may influence auditors to waive or reduce potential audit adjustments (Wright & Wright, 1997). Client pressure increases the likelihood of auditors accepting aggressive and controversial accounting adjustments (DeZoort & Lord, 1997). Furthermore, client pressure biases accountants' information search causing them to only look for information that confirms the preferred position (Cloyd & Spilker, 1999; Kadous et al., 2008). More directly, if the auditor does not submit to the client's wishes or pressures for a preferential accounting treatment, the client has the ability to choose a competitor auditing firm for the next engagement (DeZoort & Lord, 1997).

A contentious negotiation style can be used as a type of pressure by clients to influence the outcome of auditor-client negotiations (Bergner, et al. 2016; Fu et al., 2011).

While clients prefer and use more problem-solving tactics during audit negotiations, they report that they are willing to employ contentious strategies to achieve their reporting objective (Bame-Aldred & Kida, 2007). However, contentious tactics can be less effective as auditor negotiation experience increases. For example, when faced with contentious clients, auditors with greater negotiation experience are more successful at mitigating the effect of contentious pressure (Fu et al., 2011).

Contentious negotiation tactics likely have a negative influence on credibility assessments about clients. *Auditors* using a contentious negotiation style while negotiating with the client regarding audit adjustments were rated as less competent and credible than auditors utilizing a collaborative style (Perreault & Kida, 2011). Although client credibility may be reduced, contentious strategies are nonetheless effective. In a comparison with collaborative negotiation styles, Fu et al. (2011) find auditors rate the perceived outcome of the negotiation of a write-down to be lower when clients have been contentious in the past and in the current negotiation. Similarly, Bergner et al. (2016) find that during a negotiation, contentious client negotiation tactics result in auditors being more likely to waive an audit adjustment as compared to a control condition. Conversely, auditors were not more likely to waive an audit adjustment when the client used a concessionary tactic (vs. a control condition). Furthermore, Hatfield et al. (2011) find that under high client pressure (manipulated as client importance and client opposition to the adjustment), auditors propose significantly smaller adjustments than auditors in the low-pressure condition. Their study provides support that client pressure still wields substantial influence over auditors post Sarbanes-Oxley Act and is a successful negotiation style employed by clients.

While problem-solving negotiation styles are rooted in good faith and are expected to positively influence perceptions regarding trust and goodwill, the above research supports that contentious, or pressure-based tactics, are comparatively more effective strategies for clients. However, the use of either style by clients can result in suboptimal auditor judgments and could prove harmful to financial reporting in subsequent years.

Similar to prior negotiation research and consistent with client pressure effects found in auditing (e.g., Fu et al. 2011; Hatfield et al. 2011; Bergner et al. 2016), this study hypothesizes that contentious tactics will be more successful than concessionary tactics at reducing the proposed audit adjustment. If the auditor does not submit to the preferential accounting treatment, the client has the ability to choose a competitor auditing firm for the next engagement (DeZoort & Lord, 1997) which in turn strengthens the pressure exerted by the client. Inherent conflicts of interest have been shown to bias an auditors' judgments in favor of the client. Further, auditors tend to exploit ambiguity (i.e., subjective judgments) in favor of a client's preferred reporting position (Hackenbrack & Nelson, 1996; Kadous, Kennedy, & Peecher, 2003).

This study differs from Hatfield et al. (2011) in that it manipulates negotiation style in isolation (rather than client opposition in conjunction with client importance). Furthermore, this study expands on Ng and Tan (2003) by examining the influence of both concessionary and contending styles on proposed audit adjustments. In addition, while Fu et al. (2011) and Bergner at al. (2016) examine the influence of negotiation style on auditor final proposed adjustments (negotiation outcomes), the current study uses a scenario where the CFO justifies his or her position by providing additional support for his or her position. Providing the CFO's support through additional audit information allows for this study to gather additional information regarding the CFO's perceived credibility and strength of position in the negotiation process.

H2: Auditors will be less (more) likely to propose an audit adjustment for a CFO who uses a contentious (conceding) negotiation style.

Interaction Between Client Gender and Negotiation Style

Gibbins et al., (2001) identify three categories of contextual features of auditor-client negotiations and note that the views of the negotiating parties influence these categories. These categories are external conditions and constraints, interpersonal context, and parties' capabilities, with the last two the most applicable to this study (Gibbins et al., 2001). They note that the characteristics of the people involved in the negotiation process (client and auditor) influence possible outcomes (Gibbins et al., 2001). Further situational influences, or strategies employed by both the auditor and client, influence the negotiation outcome, auditor-client relationships, and financial statement quality (Sun, Tan, & Zhang, 2015).

The perception of an opponent (i.e., the client) is one of the most important elements in a bargaining situation (Bergner et al., 2016; Thompson & Hastie, 1990) Supporting this notion, research finds that client characteristics can influence the effectiveness of negotiation style. For example, in the presence of client affinity, auditors are more likely to accept aggressive client accounting (Koch & Salterio, 2017). Thus, due to the norms and gendered expectations as established above, client gender perceptions likely influence the success of the client's negotiation style.

Men and women are expected to conduct themselves in certain ways (Thompson, 2006). As previously discussed, males are seen as agentic, achievement-oriented, competent, assertive, dominant, analytical, and objective (Eagly, Makhijani, & Klonsky, 1992; Heilman, 2012; Rudman & Glick, 2001). On the other hand, females are seen as communal, kind, caring, considerate, warm, friendly, collaborative, obedient, respective, and understanding (Eagly et al., 1992; Heilman, 2012; Rudman & Glick, 2001). Deviations from gendered expectations can cause individuals to be penalized and reduce their credibility. For example, women employed in traditionally male-dominated fields are rated as less credible than their male counterparts (Brann & Himes, 2010; Mudrick, Burton, & Lin, 2017). In leadership roles, people evaluate female leaders less favorably than males, and this effect is greater when women employ masculine leadership styles, such as autocratic or directive styles (Eagly et al., 1992). Therefore, the behavior of women can invoke backlash when they are seen as violating gender norms by engaging in counter-stereotypical behaviors (Amanatullah & Tinsley, 2013; Brett & Thompson, 2016). For example, directive leadership styles employed by women result in a social penalty and decreased likability (Amanatullah & Tinsley, 2013; Brett & Thompson, 2016). Similarly, women who assume agentic behaviors, such as being forceful, competitive and directive, are viewed to be in violation of their communal stereotype (Rudman & Glick, 2001).

Contentious negotiations are forceful and direct, traits associated with males, while collaborative negotiations are more consistent with the female stereotypes of communal and unselfish characteristics. Women are less successful at negotiating when the task is linked to masculine traits such as assertiveness (Kray, Galinksy, & Thompson, 2002).

For example, women who initiate compensation negotiations, a forceful behavior, are viewed as inappropriately demanding and are met with social resistance (Bowles, Babcock, & Lai, 2007). When women negotiate, they have been found to adjust their negotiation behavior to avoid social backlash, which results in less favorable outcomes (Brett & Thompson, 2016). Amanatullah and Tinsley (2013) hypothesize that women fear being disliked, so they use negotiation strategies that undermine their success.

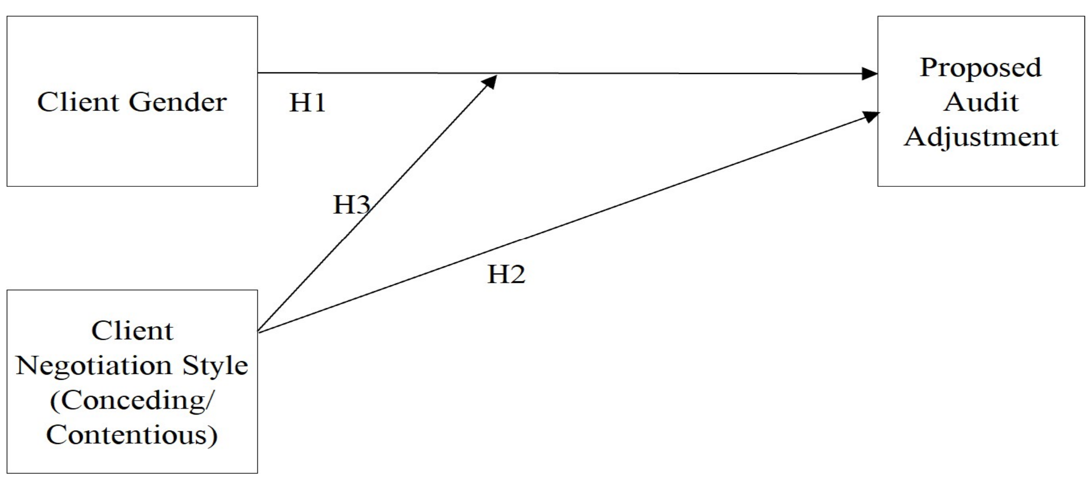
After hiring a female CFO, there is a marked increase in accounting conservatism as compared to the male predecessor (Francis et al., 2015). Similarly, firms with female CEOs tend to report earnings more conservatively (Ho et al., 2015). Krishnan and Parsons (2008) note earnings quality is higher when there is greater female representation in senior management. Furthermore, a diverse board of directors appears to reduce the likelihood and severity of fraud, particularly in male-dominated industries (Cumming, Leung, & Rui, 2015). Even with these findings that demonstrate the risk aversion of females and the positive impacts on financial reporting quality when there is diversity, audit fees are still higher for firms with a female CEO (Huang, Huang, & Lee, 2014). One possible explanation for the higher audit fees is that audit firms view a female CEO as riskier than a male CEO. Thus, the noted accounting conservatism may be a result of auditors successfully negotiating more conservative audit adjustments with female CEOs compared to male CEOs rather than a result of an inherent risk nature of female CEOs.

Based on the above discussion, this study hypothesizes that females who use a contentious negotiation style will be "penalized" for acting outside of the engendered stereotype. That is, a contentious negotiation strategy is expected to be more successful (result in a lower likelihood of a proposed audit adjustment) when used by male than by female CFOs. While women are not expected to be penalized when they use concessionary negotiation styles, auditors are still expected to propose smaller adjustments for male clients than female clients due to the perceived higher source credibility for males as discussed in H1 above. That is, auditor-client negotiations with male CFOs are expected to result in lower proposed audit adjustments than those with female CFOs, and this effect will be greater in the contentious negotiation style where female CFOs are expected to receive backlash for acting outside gender norms. In summary, negotiation style is expected to moderate the influence of client gender on auditor judgments such that the auditor judgment differences predicted in H1 for male versus female clients will be exacerbated in contentious negotiations.

> H3: The difference between the likelihood of auditors' proposed audit adjustments for male versus female CFOs will be greater when the client uses a contentious negotiation style versus a concessionary style.

The hypothesized predictions are summarized in Figure 1 below:

Figure 1
Hypothesized Model



CHAPTER 3 METHOD

This section describes the study's research method. First, participants are described, followed by a discussion of the experimental scenario. Then, each of the independent and dependent variables is discussed along with their measurement. Next, statistical methods used to test the hypotheses are described, followed by a discussion of the additional supplementary analysis for the multi-item measure of source credibility.

Participants

The participants in the study were 82 external auditors who are currently employed as audit professionals at the rank of supervisor or higher. Seventy-four participants were recruited by Qualtrics panel recruitment, and eight participants were recruited through the author's personal contacts with accounting professionals. Participants were required to be at the rank of audit supervisor or higher to participate in the study since higher ranking audit professionals are more likely to negotiate with the client compared to audit staff or supervisors. Participants not meeting the rank requirements were automatically excluded from the data analysis by Qualtrics. Two participants who met the rank requirements were excluded from the analysis due not taking reasonable care when completing the instrument.[2] One additional participant, who initially passed the Qualtrics screening, was removed for not meeting the experience

[2] Brandon et al. (2014) suggest that surveys should be designed to identify participants that rush through the survey or otherwise provide poor data quality. The experimental instrument included several questions that were similar in nature but were reversed-coded. These two participants provided the same response on all questions other than the dependent variables, suggesting a lack of reasonable care. Therefore, these participants were excluded from the analysis.

requirement of audit supervisor or higher.[3] Eighty-two participants provided usable information for the experiment. Participants were asked to provide demographic and descriptive data in addition to completing the experimental case materials.

Table 1 provides demographic results for the 82 participants. Approximately 65% (53) of the participants were male. Participants were primarily employed by local (35.37%), national (23.17%), and regional (28.05%) accounting firms. Nine participants (10.97%) reported working for Big 4 audit firms. Over 85% of participants were at the rank of audit manager or higher while audit supervisors made up the remaining participants. On average, participants had 10.6 years of audit experience. In addition, participants reported serving audit clients in a variety of industries, including retail, manufacturing, and nonprofit.

Table 1
Participant Demographic Information (n=82)

	Totals	Percent
Age		
Under 30	19	23.2%
31-40	41	50.0%
41-49	8	9.8%
Over 50	14	17.0%
Gender		
Female	29	35.4%
Male	53	64.6%
Rank		
Audit Partner	8	9.76%
Audit Manager	62	75.61%
Audit Supervisor	12	14.63%
Firm Size		
Big 4	9	10.97%

[3] In addition to Qualtrics screening questions, participants were also later required to provide their job title, consistent with best Qualtrics survey design recommendations of Brandon et al. (2014).

Other International Firm	2	2.44%
National Firm	19	23.17%
Regional Firm	23	28.05%
Local Firm	29	35.37%

Participants were asked to assess their negotiation experience and how often they had negotiated with their clients over the past three years. Table 2 provides the summary of scaled items regarding negotiation experience. Overall, participants were experienced negotiators. On a 7-point scale, with endpoints "Very inexperienced" (1) and "Very experienced" (7), participants reported a mean level of experience of 5.30 (s.d. 1.52). Also, participants reported frequently negotiating with their client in the past three years. On a 5-point scale, with endpoints "Never" (1) and "Every audit engagement" (7), the mean was 3.17 (s.d. 0.92). Overall, 72% participants report negotiating with clients "often" or greater, with only one participant reporting that he/she did not negotiate with a client in the past 3 years.

Table 2
Participant Negotiation Experience

Description of Scaled Variables (n=82)	n	Percent
Panel A: How much experience do you have negotiating audit adjustments with clients?		
1 = Very Inexperienced	1	1.2%
2	4	4.9%
3	8	9.8%
4 = Neither experienced or inexperienced	6	7.3%
5	22	26.8%
6	19	23.2%
7 = Very Experienced	22	26.8%
Panel B: How often have you negotiated with your client in the past three years?		
1 = Never	1	1.2%
2 = Occasionally	22	26.8%
3 = Often	24	29.3%
4 = Very Often	32	39.0%
5 = Every audit engagement	3	3.7%

Qualtrics Participant Recruitment

Holt and Loraas (2018) support that Qualtrics participants provide results statistically similar to participants as those sourced through other methods. Leiby, Rennekamp, and Trotman (2019), and Brandon et al. (2014) also support that Qualtrics is a promising avenue for sourcing participants. However, the studies note that the primary concern of utilizing Qualtrics is ensuring that the sample meets the study's qualifications. They suggest several considerations when designing the instrument to ensure quality data, such as the inclusion of screening questions, open-ended questions, and manipulation checks to ensure attention. To address these concerns, the beginning of the instrument had two screening questions to determine the field of employment and job title. Participants not selecting "Public Accounting" for job field and "Audit Supervisor, Audit Manager, or Audit Engagement Partner" for the job title were automatically excluded from participating. After participants completed the experimental case, participants answered several demographic questions, including an open-ended response question requiring the participant's job title. Fourteen incompatible responses were removed and resampled. The instrument also included an additional open-ended question requiring participants to explain the reason(s) behind their adjustment.

Design and Experimental Manipulation

A 2 x 2 between-subjects factorial design was used, with independent variables, CFO gender (male/female) and negotiation style (conceding/contentious), manipulated between subjects.[4] An online case-based instrument was used and CFO gender and negotiation style were randomly assigned to participants as they entered the case

[4] Institutional Review Board approval was obtained prior to the collection of data.

materials. This case was an inventory obsolescence case adapted from Anderson, Jennings, Lowe, and Reckers (1997) and includes modifications consistent with more recent uses of the case to manipulate characteristics of the source (e.g., Bhattacharjee, Moreno, & Riley, 2012).

Participants first reviewed firm financial information, including information about a potential inventory obsolescence. Then, participants were asked to note their likelihood to propose an initial audit adjustment and the dollar amount of the adjustment. Next, participants received the CFO's name and a transcript of the CFO justifying the inventory valuation as part of the negotiation process.[5] This approach is consistent with the negotiation process as discussed by Brown and Wright (2008), whereby the auditor and the client implement their respective negotiation strategies, and exchange information and views during the negotiation process. Participants were next asked to indicate the likelihood they would propose an audit adjustment and the dollar amount that they believed would be ultimately recorded in the client's audited financial statements. Furthermore, participants provided a minimum adjustment amount they would require to issue a clean opinion. In addition to proposing the audit adjustment, participants indicated their perceptions of client credibility on a single-item measure and a multi-item measure scale.

Independent Variables

The manipulated independent variables are CFO gender (male vs. female) and negotiation style (conceding vs. contentious).

[5] Consistent with Fu et al. (2011) and Trotman et al. (2009), the client contact was the CFO.

Gender

Consistent with Hull and Umansky (1997) and Bloomfield, Rennekamp, Steenhoven, and Stewart (2018), gender was manipulated by the use of feminine (Christine) and masculine (Chris) names. In addition to names, pronouns were used multiple times to ensure a strong gender manipulation, consistent with Bloomfield et al., (2018).

Negotiation Style

Consistent with Hatfield et al. (2008) and Fu et al. (2011), client negotiation style was manipulated by describing whether the client has been open to discussions and adjustments or contentious in prior negotiations. Furthermore, negotiation style was also manipulated in the client response on the current accounting issue. Descriptions of the client negotiation style in both the past and the present were provided, consistent with Fu et al. (2011) and Hatfield et al. (2008), since research notes that negotiation style is situational instead of dispositional (Knapp, Putnam, & Davis, 1988). For contentious negotiations, the auditors were informed that the client has adopted a tough stance against audit adjustments in the past and has been reluctant to post audit adjustments. For the current year scenario, the client expresses his/her adamant opposition to recording a write down. Auditors in the concessionary negotiation condition were informed that the client has been reasonable and open to discussions regarding audit adjustments in the past. Furthermore, the client reiterates his/her reservations about the proposed audit adjustment but has indicated s/he is willing to consider carefully whether some amount of the proposed audit adjustment is reasonable.

Manipulation Checks

Consistent with Fu et al. (2011), participants were asked to respond to the question "How would you characterize the CFO's position during the auditor-client negotiations?" (scale of 1 = "extremely flexible" to 7 = "extremely inflexible") to ensure that the negotiation style manipulation was successful. Participants also were asked to identify the client's gender.

Dependent Variables

Proposed Audit Adjustments

Participants indicated the likelihood they would propose an audit adjustment on a scale from 1 = "Extremely unlikely" to 7 = "Extremely likely." Consistent with prior studies (Trotman et al., 2005, 2009), participants were asked to propose an initial audit adjustment and then propose the final audit adjustment after the client gender and negotiation style manipulation on the same 7-point scale. Obtaining participants' initial adjustment allowed for the examination of the negotiating starting point to control for differences in the initial position. Participants were also asked to indicate the amount of the initial and final proposed audit adjustments expected to be recorded on a scale of $0 to $1,800,000.

Consistent with Trotman et al. (2009), after recording their final audit adjustment, participants were asked to indicate the amount of the minimum inventory write-down that they were willing to accept before issuing a clean audit opinion. This measure differs from the expected audit adjustment to be recorded as it captures whether auditors may be willing to reduce the proposed audit adjustment further than the adjustment they believe would be ultimately recorded on the financial statements.

Client Credibility

Maksymov's (2015) review of credibility in the auditing literature indicates that there is a lack of consistency on the measurement of client credibility. For example, few studies examine client credibility and those that do use competence, integrity, or trustworthiness to proxy for credibility (Maksymov, 2015). For this study, client credibility was measured in two ways. First, a single-item credibility question was used after the primary dependent measures related to the audit adjustment were collected. The end points of the credibility scale were labeled with "1" as "Not at all Credible" to "7" as "Very Credible." Eutsler & Lang (2015) found that a 7-point Likert scale maximizes variance and additional scale points do not increase variance.

In addition to the single-item measure of credibility, this study also uses a multi-item measure that includes three dimensions of credibility: competence, trustworthiness, and goodwill (McCroskey & Teven, 1999). Numerous studies outside of the accounting discipline utilize the multi-item measure (e.g., Banfield, Richmond, & McCroskey, 2006; Teven & Hanson, 2004). Since prior accounting studies typically only examine competence or trustworthiness, these studies leave out the potentially relevant third dimension, goodwill. Client negotiation strategy is expected to influence goodwill between the negotiating parties (Beattie, Fearnley, & Brandt, 2004; Trotman et al., 2005). Therefore, examining all three dimensions of credibility can provide additional insights into the influence of negotiation strategy, and also gender, on client credibility overall, as well as the three separate dimensions. The multi-item scale is provided in Figure 2.

Figure 2

Multi-item Source Credibility Measure from McCroskey and Teven (1999)

1	Intelligent	1 2 3 4 5 6 7	Unintelligent
2	Untrained	1 2 3 4 5 6 7	Trained
3	Cares about me	1 2 3 4 5 6 7	Doesn't care about me
4	Honest	1 2 3 4 5 6 7	Dishonest
5	Has my interests at heart	1 2 3 4 5 6 7	Doesn't have my interests at heart
6	Untrustworthy	1 2 3 4 5 6 7	Trustworthy
7	Inexpert	1 2 3 4 5 6 7	Expert
8	Self-centered	1 2 3 4 5 6 7	Not self-centered
9	Concerned with me	1 2 3 4 5 6 7	Not concerned with me
10	Honorable	1 2 3 4 5 6 7	Dishonorable
11	Informed	1 2 3 4 5 6 7	Uninformed
12	Moral	1 2 3 4 5 6 7	Immoral
13	Incompetent	1 2 3 4 5 6 7	Competent
14	Unethical	1 2 3 4 5 6 7	Ethical
15	Insensitive	1 2 3 4 5 6 7	Sensitive
16	Bright	1 2 3 4 5 6 7	Stupid
17	Phony	1 2 3 4 5 6 7	Genuine
18	Not understanding	1 2 3 4 5 6 7	Understanding

	Items
Competence Factor	1, 2, 7, 11, 13, and 16
Caring/Goodwill Factor	3, 5, 8, 9, 15, and 18
Trustworthiness Factor	4, 6, 10, 12, 14, and 17

Pretest

The experimental case was reviewed by several accounting academic researchers, and their feedback was incorporated into the case prior to a pretest. Thirty-one students in a Master of Accountancy program participated in a pretest. Overall, the students found the case to be understandable (mean of 5.06 on a scale of 1 to 7, with endpoints of 1 = not at all understandable and 7 = very understandable) and is significantly higher than the scale midpoint of 4 ($p < 0.01$).[6] Eighty-one percent of participants passed the gender

[6] All p-values are two-tailed unless otherwise noted.

manipulation check. The negotiation style manipulation was successful as the contentious CFO was viewed as significantly more inflexible than the concessionary CFO (means = 3.33 and 4.38, respectively; $p = 0.06$). Slight changes were made to increase the salience of the gender manipulation for the final instrument.

Controls

Audit quality depends on the auditor's knowledge, ability, personality, goals and cognitive style as these characteristics influence audit judgments (Hurtt et al., 2013; Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013; Mala & Chand, 2015; Nelson & Tan, 2005). While gender or other biases may result in suboptimal judgments or decisions, lack of knowledge and experience also impedes judgments (Hurtt et al., 2013; Reheul, Van Caneghem, Van den Bogaerd, & Verbruggen, 2017). Kaplan et al. (2008) find that the influence of information from management is not only affected by the characteristics of the source and the message, but information also is influenced by the characteristics of the recipient. Therefore, three relevant auditor characteristics: auditor gender, audit experience, and negotiation experience were collected as potential control variables.

Auditor Gender

Although auditors receive the same training and education irrespective of their gender, psychology literature depicts numerous differences between men and women in behaviors, judgments, societal expectations, norms, and complex tasks. For example, female negotiators are found to have a greater concern for others and are more willing to cooperate (Kennedy & Kray, 2015; Meyers-Levy & Loken, 2015). Conversely, men are more aggressive, which generally results in a better negotiation outcome (Kray et al., 2001). Female negotiators are less successful when the negotiation is linked to stereotypical masculine traits, such as assertiveness (Kray et al., 2002), as is present in a contentious negotiation style. Thus, auditor gender will be included as a potential covariate.

Auditor Experience

Research suggests that experience influences auditor judgments and decisions (Bhattacharjee & Moreno, 2002; Cahan & Sun, 2015; Fu, et al., 2011; Hurtt et al., 2013; Kaplan et al., 2008; Shaub, 1996). Therefore, participants were asked to provide information regarding the number of years' experience in auditing, as well as education information. Not surprisingly, research supports that auditors with more experience are less likely to be influenced by extraneous evidence. Gul, Wu, and Yang (2013) found that individual auditors can influence audit quality through their characteristics such as education, political affiliation, Big N audit experience, and experience level. Other studies support that more experienced auditors are less likely to be influenced by affective information (Bhattacharjee & Moreno, 2002) and persuasiveness of management-provided material (Kaplan, O'Donnell, & Arel, 2008). Therefore, audit experience will be explored as a potential covariate.

Negotiation Experience

Overall, experienced negotiators are more successful (Murnighan, Babcock, Thompson, & Pillutla, 1999). Specifically, in an audit setting auditors with more negotiation experience are more successful negotiating with a client who uses a contentious negotiation style (Fu et al., 2011). However, negotiating experience did not impact outcomes with problem-solving negotiating clients (Fu et al., 2011). Therefore, negotiation experience was considered as a possible covariate.

CHAPTER 4 RESULTS

Manipulation Checks

After responding to the experimental questions, participants were asked to identify the gender of the CFO. Participants who failed the manipulation check by either incorrectly identifying the CFO gender or by answering “unsure” were automatically excluded from the data set provided by Qualtrics.[7] Qualtrics then resampled to replace the participants. Thus, all 82 participants correctly identified the CFO gender.

In order to assess whether participants viewed the contentious negotiation style differently than the concessionary style, participants were also asked to characterize the CFO’s position on a scale of 1 to 7, with 1 being completely inflexible and 7 being completely flexible. Means, standard deviations, and sample sizes are presented in Table 3. Overall, the manipulation was successful with the concessionary CFO viewed as more flexible (5.24) than the contentious CFO (3.68) ($p < 0.01$).

Table 3
Perceived Flexibility of CFO Position

Mean CFO Flexibility (standard deviation) by Negotiation style		
	Contentious	Concessionary
Mean[a,b]	3.68	5.24
Standard Deviation	(1.65)	(1.07)
n	41	41

[a] CFO position measures the perceived flexibility of the CFO position on a scale of 1 = “Completely inflexible” and 7 = “Completely flexible”
[b] Means are significantly different at $p < 0.01$.

[7] A total of 18 respondents failed the manipulation check.

Perceptions of the Case Instrument

Participants were asked to assess the case instrument in terms of understandability and realism. These perceptions were assessed on a 7-point scale, with endpoints "Not at all Understandable" and "Not at all Realistic" at 1, and "Very Understandable" and "Very Realistic" at 7. Overall, participants found the case understandable (mean = 5.66, s.d = 1.35) and respondents also found the case realistic (mean = 5.59, s.d. = 1.69). Both case realism and understandability are significantly different from the scale midpoint of 4 ($p < 0.01$). Assessed realism and understandability did not significantly differ between treatment groups ($p > 0.05$).

Preliminary Tests

Prior to performing the analysis of covariance (ANCOVA), statistical assumptions for ANOVA were tested and met.[8] Further, a Pearson correlation table was examined for correlations between the dependent variable and the potential covariates. Two variables, audit experience and the initial likelihood to propose an audit adjustment, were significantly correlated with the final likelihood to propose an audit adjustment ($p = 0.01$). The initial likelihood correlation is expected since pre-negotiation adjustments are indicative of the final negotiation outcome (Bame-Aldred & Kida, 2007; Trotman et al., 2009). Including the initial likelihood as a covariate controls for individual differences in negotiation starting points.[9] Furthermore, more experienced auditors are less likely to be

[8] There was a linear relationship between final likelihood and audit experience for each group, as assessed by visual inspection of a scatterplot. Three outliers were noted. However, there are no significant differences in the results when they are excluded. Therefore, they remain in the data analysis that follows. There was homogeneity of variances, assessed by Levene's test of homogeneity of variance ($p > 0.05$).
[9] Auditor gender did not have a significant effect on the initial likelihood to propose an audit adjustment.

influenced by client negotiation style (Fu et al., 2011). Negotiation experience and the frequency with which auditors negotiated with clients were not significantly correlated with the dependent variable ($p > 0.10$).[10]

Hypothesis Testing

Subjects' responses were analyzed in a 2 x 2 ANCOVA with negotiation style (concessionary or contentious) and CFO gender as the between-subjects' variables, and likelihood to propose an audit adjustment as the dependent variable. Audit experience and the initial likelihood of adjustment were significantly correlated with the dependent measures and are included as covariates in the model. The ANCOVA results are presented in Table 4, Panel B. Panel A provides the adjusted means for the final likelihood by CFO gender and negotiation style. The dollar amount of the proposed audit adjustment was also examined as the dependent variable, and the results using this dependent variable are reported in Table 5 (discussed later).

Hypothesis 1 investigates whether the CFO gender influences the likelihood that an auditor will propose an audit adjustment on an inventory obsolescence issue. Specifically, H1 predicts that auditors will be more likely to propose an audit adjustment when negotiating with a female CFO than when negotiating with a male CFO. Hypothesis 2 predicts that auditors will be less (more) likely to propose an audit adjustment for CFOs who use a contentious (concessionary) negotiation style. The ANCOVA reveals that there is no significant main effect for gender (H1) or negotiation style (H2). However, there is a significant interaction between gender and negotiation

[10] The exclusion of these covariates do not significantly alter the results. Therefore, they are excluded from the model.

style, which will be discussed in further detail with the analysis of Hypothesis 3 below. As for the covariates, audit experience was not significant (p = 0.32), but the initial proposed audit adjustment was significant (p = 0.00).

Table 4
Impact of Negotiation Style and CFO Gender on the Final Likelihood of Proposing an Audit Adjustment[a]

Panel A: Final likelihood to propose an audit adjustment[a] means (standard deviations) by group

		CFO Negotiation Style		
Mean (S.D.) *n*		Contentious	Concessionary	Total
CFO Gender	Female	4.78 (1.38) *21*	4.34 (2.03) *22*	4.56
	Male	4.00 (1.64) *19*	4.79 (1.69) *18*	4.40
	Total	4.39	4.57	

Panel B: Analysis of covariance

Source of variation	SS	df	*F*-ratio	*p*-value
Gender (H1)	*0.53*	1	0.54	0.54
Negotiation style (H2)	*0.56*	1	0.53	0.53
Negotiation style x Gender (H3)	*7.41*	1	5.29	0.02
Initial likelihood	*102.30*	1	72.96	0.00
Audit experience	*1.41*	1	1.00	0.32

Panel C: Planned contrasts

Mean Comparisons	*t-statistic*	*p*-value
Female vs. male CFO within contentious negotiation style	2.06	0.04
Female vs. male CFO within concessionary negotiation style	1.40	0.24
Concessionary vs. contentious negotiation style for male CFOs	1.98	0.05
Concessionary vs. contentious negotiation style for female CFOs	1.17	0.24

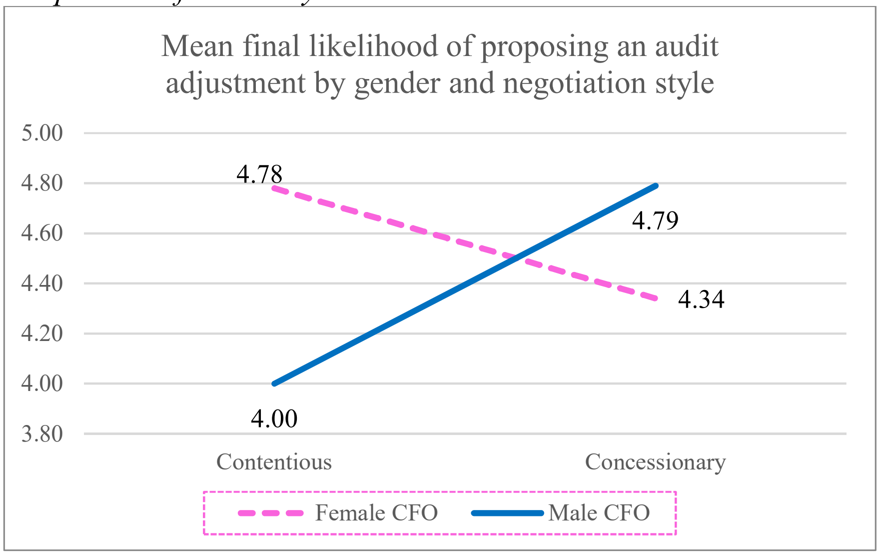
[a] Participants' final likelihood audit adjustment measured on a scale from 1 = "Extremely unlikely" to 7 = "Extremely likely."

<u>Variable Definitions</u>

Negotiation style =	Participants were randomly assigned to either the contentious or concessionary CFO.
Gender =	Participants were randomly assigned to either the male CFO or a female CFO.
Initial likelihood =	Participants' initial likelihood audit adjustment measured on a scale from 1 = "Extremely unlikely" to 7 = "Extremely likely."
Audit experience =	Participants' self-reported number of years of audit experience

Hypothesis 3 predicted that the difference between auditors' likelihood to propose an audit adjustment for male versus female CFOs will be greater when the client uses a contentious versus a conceding negotiation style. The results indicate a significant disordinal interaction of negotiation style and gender on likelihood to propose an audit adjustment ($F = 5.29$, $p = 0.02$). Contrast tests to examine the gender differences within negotiation style are provided in Panel C. As indicated, the likelihood to propose an audit adjustment for the contentious male CFO of 4.00 is significantly lower compared to contentious female CFO of 4.78 ($p = 0.04$). However, there is no significant difference between male and female CFOs who use a concessionary negotiation style ($p = 0.24$). Further, there is a significant difference in the likelihood of proposed audit adjustment depending upon the negotiation style used by males. Auditors are less likely to propose an audit adjustment for contentious male CFOs (mean = 4.00) than for concessionary male CFOs (mean = 4.78) ($p = 0.05$). However, CFO negotiation style did not have a significant effect on proposed audit adjustments for female CFOs. The interaction results are summarized in Figure 3.

Figure 3
Comparison of Means by Treatment Condition



Strength of Argument

In order to understand whether gender and negotiation style affect auditor judgments by influencing how auditors view the CFO's argument, information was gathered about the perceived strength of the CFO's argument. Participants were asked to rank the strength of the CFO's argument against writing down the inventory on a scale of 1 to 7, with 1 being "very weak," and 7 being "very strong." There were no significant differences regarding strength of argument between treatment conditions for either gender or negotiation style ($p > 0.10$). Furthermore, the interaction between CFO gender and negotiation style was not significant ($p > 0.10$) suggesting that the CFO gender and negotiation style did not significantly influence the participants' perception of the strength of argument. In other words, although participants did not view the contentious male as having a stronger argument than the contentious female, they were less likely to propose an adjustment for the male CFO. This provides further evidence of a backlash effect for female CFOs.

Amount of Audit Adjustment

In addition to providing their final likelihood of proposing an audit adjustment, participants also reported the dollar amount of the expected inventory adjustment they would propose. Table 5, Panel A provides the estimated marginal means of the final proposed inventory write-down. Consistent with the likelihood dependent measure, the interaction between negotiation style and gender is significant on the amount of the proposed final audit adjustment ($F = 4.92$, $p = 0.03$), and there are no significant main effects (See Table 5 Panel B).

Table 5, Panel C provides the results of the contrast tests between treatment groups. The mean proposed audit adjustment is significantly lower for female than male CFOs in the concessionary negotiation style ($p = 0.05$). Further, male CFOs fare better (lower adjustments) when they use a contentious style than a concessionary style ($p = 0.09$). However, while auditors are more likely to propose audit adjustments for female CFOs compared to male CFOs who use a contentious negotiation style, the likelihood result does not translate into a significantly different audit adjustment amount ($p > 0.10$).[11] These results support prior findings that using a contentious (vs. concessionary) negotiation style does result in lower audit adjustments, but only for male CFOs as there was no significant difference between contentious and concessionary negotiation style for female CFOs ($p > 0.19$).

[11] Results are consistent with and without audit experience included as a covariate.

Table 5

Impact of Negotiation Style and CFO Gender on the Final Proposed Audit Adjustment Expected to be Recorded

Panel A: Final proposed audit adjustment[a] means (standard deviations) by group

Mean (S.D.) *n*		CFO Negotiation Style: Contentious	Concessionary	Total
CFO Gender	Female	\$637,657.91 (\$594,701.57) *21*	\$541,354.72 (\$438,370.58) 22	\$578,271.58
	Male	\$557,383.28 (\$349,970.79) *19*	\$691,393.55 (\$533,673.25) *18*	\$634,332.65
	Total	\$686,007.55	\$522,392.10	

Panel B: Analysis of covariance

Source of variation	SS	df	*F*-ratio	*p*-value
Gender	*23916117644*	1	0.45	0.51
Negotiation style	*7114752710*	1	0.13	0.72
Negotiation style x Gender	*260483826869*	1	4.92	0.03
Initial adjustment	*1.43E+13*	1	269.37	0.00
Audit experience	*11655743898*	1	0.21	0.65

Panel C: Planned contrasts

	t-statistic	*p*-value
Female vs. male CFO within contentious negotiation style	1.08	0.28
Female vs. male CFO within concessionary negotiation style	2.00	0.05
Concessionary vs. contentious negotiation style for male CFOs	1.74	0.09
Concessionary vs. contentious negotiation style for female CFOs	1.31	0.19

[a] The dependent variable measures the final proposed audit adjustment expected to be recorded on a scale of \$0 to \$1,800,000

Variable Definitions

Negotiation style = Participants were randomly assigned to either the contentious or concessionary CFO

Gender = Participants were randomly assigned to either the male CFO or female CFO

Initial likelihood = Participants' proposed initial audit adjustment measured on from \$0 to \$1,800,000.

Audit experience = Participants' self-reported number of years of audit experience

Minimum Adjustment

Participants were also asked to provide the minimum inventory write-down that they were willing to accept before issuing a clean audit opinion (reported on a sliding scale of \$0 to \$1,800,000). An ANCOVA indicates that the interaction between CFO gender and negotiation strategy is significant on the minimum amount ($p = 0.01$), which is consistent with the results seen in table 5. T-tests indicate that the minimum adjustment was significantly lower than the final expected adjustment for contentious males ($p = 0.01$) and concessionary females ($p = 0.03$). These results provide further evidence of the effectiveness of the contentious strategy for males and the concessionary strategy for females.

Effect of Negotiation Style and Gender on Credibility

Given that source credibility is an important factor in an auditors' assessment of information provided by the client, participants also assessed the perceived credibility of the CFO. A single-item measure of CFO credibility was included in the case instrument and was measured as a seven-point scale with "not at all credible" (1) and "very credible" (7) as scale endpoints. A 2 x 2 ANOVA was run to examine whether negotiation style and gender influence the credibility of the CFO. The means and results of the ANOVA model are presented in Table 6. There is a significant main effect of negotiation style on CFO credibility ($p = 0.03$) suggesting that those who use a concessionary negotiation style (5.49) are viewed as more credible than those who use a contentious (4.85) style. Gender of the CFO does not have a significant effect on credibility ($p = 0.31$), nor is the interaction between gender and negotiation style significant. As previously discussed, the three dimensions of credibility are competence, trustworthiness, and goodwill. Thus, negotiation style potentially influences one or more of these dimensions of credibility. Additional analysis is discussed below.

Table 6
Impact of Negotiation Style and Gender on CFO Credibility

Panel A: Credibility[a] means (standard deviations) by group

Mean (S.D.) *n*		CFO Negotiation Style: Contentious	Concessionary	Total
CFO Gender	Female	4.95 (1.40) *21*	5.65 (0.98) *23*	5.32
	Male	4.75 (1.65) *20*	5.28 (1.02) *18*	5.00
	Total	4.85	5.49	

Panel B: Analysis of variance

Source of variation	SS	df	*F*-ratio	*p*-value
Negotiation style	*7.66*	1	4.69	0.03
CFO Gender	*1.69*	1	1.03	0.31
Negotiation style x CFO gender	*0.15*	1	0.09	0.76

[a] Auditors' assessment of CFO credibility on a scale of 1 = "Not at all credible" to 7 = "Extremely credible"

<u>Variable Definitions</u>

Negotiation style = Participants were randomly assigned to either the contentious or concessionary CFO.

Gender = Participants were randomly assigned to either the male CFO or female CFO.

Effect of credibility on final likelihood to propose an audit adjustment

A multiple regression was run with final likelihood to propose an audit adjustment as the dependent variable, and credibility and initial likelihood to propose an audit adjustment as predictors to determine if client credibility influenced the final likelihood to propose an audit adjustment.[12] The R^2 for the model was 55.2% with an adjusted R^2 of 54.1%. Credibility and initial likelihood to propose an audit adjustment statistically are significantly related to the final likelihood to propose an audit adjustment $F(2,79) = 48.71$, $p < 0.01$. Therefore, the more credible the CFO is perceived to be, the less likely auditors were to propose a final audit adjustment. Furthermore, initial likelihood to propose an audit adjustment is positively related to the final likelihood to propose an audit adjustment. Regression coefficients and standard errors can be found in Table 7.

Table 7
Regression of Perceived CFO Credibility on Final Likelihood to Propose an Audit Adjustment

Predictor Variable	*B*	SE_B	β
Intercept	1.98	0.69	
Initial likelihood	0.73	0.08	0.71*
Credibility[a]	-0.21	0.10	-0.16*

[a] Auditors' assessment of CFO credibility on a scale of 1 = "Not at all credible" to 7 = "Extremely credible"
* p < 0.05; *B* = unstandardized regression coefficient; SE_B standard error of the coefficient
β = standardized coefficient

Variable Definitions

Initial likelihood = Participants' final likelihood audit adjustment measured on a scale from 1 = "Extremely unlikely" to 7 = "Extremely likely."

Credibility = Measures the auditors' assessment of CFO credibility on a scale of 1 = "Not at all credible" to 7 = "Extremely credible"

Credibility as a mediator

As seen in Table 7, credibility influences the likelihood to propose an audit adjustment. Further, as reported in Table 8, negotiation style (but not gender) influenced credibility. To test the interactive influence of CFO gender, negotiation style, and credibility on the final likelihood to propose an audit adjustment, a moderated mediation

[12] Multiple regression assumptions were tested and all assumptions were met.

test using PROCESS (Hayes, 2017) was conducted. Consistent with Holt (2018), the confidence interval used was 95% and bootstrapping sample size was 10,000. The PROCESS procedure did not find a significant moderated mediation model with either the single measure of credibility or the multi-item measure of credibility. The indirect effect of negotiation style on the likelihood to propose an audit adjustment through the single-item measure of credibility was not significant (ab = -0.12 CI = (-0.47, .07) and ab = -0.16 CI (-0.47, 0.03) for the male CFO and female CFO conditions, respectively). Results are statistically similar when the multi-item measure of credibility is used instead of the single-item measure (ab = -0.08 CI = (-0.31, 0.18) and ab = -0.11 CI (-0.46, 0.21) for the male CFO and female CFO conditions, respectively). Thus, credibility does not mediate the negotiation and gender effects on the likelihood of an audit adjustment.

Credibility multi-item measure

To further examine the factors related to credibility, participants rated the CFO's credibility using an 18-item scale used in prior research. The scale includes three dimensions of credibility: competence, goodwill, and trustworthiness (McCroskey & Teven, 1999). Cronbach's alpha was used to test the reliability of the multiple-item measures. The results, along with each item's mean and standard deviation, are presented in Table 8. Each dimension consisted of six matched-pairs. Competence, Goodwill, and Trustworthiness each had a high level of internal consistency, as determined by a Cronbach's alpha of 0.89, 0.89, and 0.91, respectively. All are above the suggested minimum of 0.70 (Hair, Black, Babin, & Anderson, 2010) and consistent with McCroskey and Teven's (1999) results.

Table 8
Multi-item Credibility Measure Cronbach's Alpha and Means

Dimension	Matched Pairs	Mean	S.D.	Cronbach's Alpha
Competence				0.89
	Unintelligent - Intelligent	5.41	1.46	
	Untrained - Trained	5.45	1.40	
	Inexpert - Expert	5.21	1.33	
	Uninformed - Informed	5.17	1.67	
	Incompetent - Competent	5.39	1.46	
	Stupid - Bright	5.20	1.49	
Goodwill				0.89
	Doesn't care about me - Cares about me	4.04	1.73	
	Doesn't have my interests at heart - Has my Interests at Heart	3.89	1.74	
	Self-Centered - Not Self-Centered	4.17	1.62	
	Not concerned with me - Concerned with me	3.94	1.70	
	Insensitive - Sensitive	4.29	1.45	
	Not Understanding - Understanding	4.84	1.61	
Trustworthiness				0.91
	Dishonest - Honest	4.84	1.54	
	Untrustworthy - Trustworthy	4.90	1.39	
	Dishonorable - Honorable	4.73	1.36	
	Immoral - Moral	4.59	1.45	
	Unethical - Ethical	4.95	1.56	
	Phony - Genuine	5.04	1.36	

The six related items were summed to create a composite score for competence, goodwill, and trustworthiness. The total highest possible score of each summed dimension is 42. Multivariate analysis of variance (MANOVA) was used to examine the effects of negotiation style and client gender on the composite assessment of competence, goodwill and trustworthiness and the results are presented in Table 9, Panel A. The means and standard deviations by treatment groups and credibility dimensions are presented in Table 9 Panel B. The univariate results are presented in Panel C.

Overall, the MANOVA shows a significant effect of negotiation style on the credibility measures ($F = 4.09$, $p = 0.01$). Specifically, CFOs who use a concessionary negotiation style are viewed as more competent (p = 0.02), build more goodwill (p < 0.01), and are more trustworthy (p = 0.01) than CFOs who use a contentious style. The main effect of CFO gender, and the interaction between negotiation style and CFO gender do not significantly influence credibility.

Table 9
Impact of Negotiation Style and CFO Gender on Competence, Goodwill, and Trustworthiness Assessments

Panel A: MANOVA of gender and negotiation style on credibility

	Wilks' Lambda	*F*-ratio	*p*-value*
CFO Gender	0.94	1.67	0.18
Negotiation style	0.86	4.09	0.01
Negotiation style x CFO gender	0.97	0.67	0.57

Panel B: Means (standard deviations by negotiation style)

	Negotiation Style	
	Contentious	Concessionary
Competence	29.93	33.73
Goodwill	22.22	28.12
Trustworthiness	26.85	31.21

Panel C: MANOVA univariate results of gender and negotiation style

		SS	df	*F*-ratio	*p*-value
Gender	Competence	169.51	1	3.66	0.06
	Goodwill	169.31	1	3.16	0.08
	Trustworthiness	62.62	1	1.35	0.25
Negotiation style	Competence	271.97	1	5.87	0.02
	Goodwill	663.30	1	12.38	0.00
	Trustworthiness	357.28	1	7.72	0.01
Negotiation style x CFO gender	Competence	0.21	1	0.00	0.95
	Goodwill	9.95	1	0.19	0.67
	Trustworthiness	49.01	1	1.06	0.31

Variable Definitions

Negotiation style = Participants were randomly assigned to either the group with a contentious or concessionary CFO

Gender = Participants were randomly assigned to either the group with a male CFO or a female CFO.

Competence = Subtotaled score of six matched pair items. Total score on a scale of 6 to 42.

Goodwill =	Subtotaled score of six matched pair items. Total score on a scale of 6 to 42.
Trustworthiness =	Subtotaled score of six matched pair items. Total score on a scale of 6 to 42.

Competence, goodwill, trustworthiness and the credibility single item measure

A regression of the three factors from the multi-item scale was performed on the single-item measure of credibility. Table 10 provides the regression results. R^2 for the model is 53.1% with an adjusted R^2 of 51.3%. Competence and trustworthiness are significantly correlated with credibility, $F(3,78) = 29.49$, $p < 0.05$. However, goodwill is not significantly correlated with credibility. Although negotiation style did impact goodwill as shown in the MANOVA Table 9, participants may not consider goodwill in their assessment of the single-item measure. Future research should further explore the role of goodwill in credibility assessments and auditor judgments.

Table 10
Regression Analysis of Competence, Goodwill and Trustworthiness on Perceived CFO Credibility

DV - Credibility	*B*	SE_B	β
Intercept	0.83	0.49	
Competence	0.06	0.02	0.35*
Goodwill	0.01	0.02	0.07
Trustworthiness	0.07	0.03	0.38*

* $p < 0.05$; *B* = unstandardized regression coefficient; SE_B standard error of the coefficient

β = standardized coefficient

<u>Variable Definitions:</u>

Competence =	Subtotaled score of six matched pair items. Total score on a scale of 6 to 42.
Goodwill =	Subtotaled score of six matched pair items. Total score on a scale of 6 to 42.
Trustworthiness =	Subtotaled score of six matched pair items. Total score on a scale of 6 to 42.

CHAPTER 5 CONCLUSIONS, LIMITATIONS, AND FUTURE RESEARCH

This study examines the influence of CFO gender and negotiation style on proposed audit adjustments. The auditing literature to date supports that contentious and concessionary negotiation styles can both be successful at reducing proposed audit adjustments. However, the literature has not considered the influence of CFO gender on proposed audit adjustments or how gender may interact with other factors in the audit environment. The study predicted that auditors would be less likely to propose an audit adjustment for male CFOs (vs. female CFOs) primarily due to the higher competence and source credibility typically associated with males. In addition, consistent with prior accounting studies, the study hypothesized that a CFO's use of a contentious negotiation strategy would be more successful at reducing the proposed audit adjustment than a concessionary strategy. Finally, it was predicted that CFO gender would interact with CFO negotiation style, such that females using a contentious negotiation strategy would experience backlash in the form of a higher proposed audit adjustment compared to male CFOs utilizing the same negotiation style.

Contrary to hypothesis one, gender alone did not significantly influence proposed audit adjustments. Furthermore, in contrast with prior accounting studies, there was not a significant main effect of negotiation style on proposed audit adjustments. Instead, a contentious negotiation style was only effective at reducing the likelihood of auditors proposing an audit adjustment when the CFO was male. Conversely, female CFOs utilizing a contentious negotiation style experienced backlash represented by the disordinal interaction of negotiation style and gender. When examining the amount of the proposed audit adjustment, results indicate that auditors propose significantly lower adjustments for females (vs. males) when the concessionary style is used. This provides evidence that while pressure tactics seem to be successful for male CFOs, concessionary tactics are more successful for females. Further supporting the backlash effect, participants did not view the contentious male as having a *stronger* argument than the contentious female. That is, the evidence is viewed equally for both CFOs. The results suggest that the more conservative financial reporting found in prior archival research (Francis et al., 2015; Ho et al., 2015) by female leadership could be partially explained by audit negotiation outcomes. Future research should explore which negotiation styles are more likely to be utilized by both male and female CFOs to provide further insight into the financial statement reporting conservatism noted.

While not formally hypothesized, this paper also evaluates single and multi-item measures of credibility. Previous literature has often used competence or trustworthiness as a proxy for credibility (Maksymov, 2015); however, McCroskey & Teven (1999) argue that credibility is a multidimensional item consisting of competence, trustworthiness, and goodwill assessments. Overall, auditors view CFOs who use a contentious negotiation style as less credible than those who use a concessionary negotiation style. Contrary to literature in other disciplines, the CFO's gender did not influence perceived credibility. Higher CFO credibility did result in significantly lower likelihood to propose an audit adjustment. However, credibility did not mediate the negotiation and gender effects on the likelihood to propose an audit adjustment.

In addition to a single-item measure of credibility, this paper also explored a multi-dimensional credibility measurement used in other disciplines (McCroskey and Teven, 1999). Prior audit research has used competence or trustworthiness as a proxy for credibility (see Maksymov, 2015 for a review). However, McCroskey and Teven (1999) suggest that credibility is a multi-dimensional construct consisting of competence, trustworthiness, and goodwill assessments. Interestingly, when examining the three separate dimensions, only competence and trustworthiness significantly influenced the single-item measure of CFO credibility. While higher (lower) perceived CFO goodwill did not increase (decrease) overall credibility perceptions, it did significantly decrease (increase) the likelihood of a proposed audit adjustment. Therefore, future audit studies should consider incorporating a multi-item measure of credibility that includes competence and trustworthiness, as well as further explore the role and consequences of goodwill on audit judgments.

This study's findings have several important implications for practitioners, researchers, and policymakers. From a practice standpoint, the results highlight an auditors' susceptibility to reducing proposed audit adjustments due to client pressure from male CFOs and the use of concessionary tactics by female CFOs. If male CFOs contend with a proposed audit adjustment, auditors are likely to reduce the proposed audit adjustment, weakening the audit monitoring mechanism. Similarly, if female CFOs offer concessions, auditors may reciprocate (e.g., see Hatfield et al., 2008; Hatfield, Houston, Stefaniak, & Usrey, 2010), at a suboptimal level. Future research could examine possible ways to reduce the influence of client negotiation style by exploring solutions such as remotely conducted negotiations, or priming the negotiating auditor. For example, future studies could examine whether negotiations conducted through email exchanges are susceptible to the same gender effects as face-to face negotiations. In addition, research could examine if priming the negotiating auditor reduces the effects of gender on negotiation style. Psychology research supports that both explicit and implicit priming is effective at activating goals and improving judgments (Dijksterhuis & Aarts, 2010). For example, auditors could be told to consider the strength of the argument when finalizing their adjustment.

This study is subject to several limitations. First, there are inherent differences in the realism in artificial and natural negotiation settings as real-world pressures would be more intense than the experimental setting (DeZoort & Lord, 1997). In addition, one potential limitation to the simulation format is that the auditor is not directly interacting with the client, which does not allow the individual to foster trust or distrust based on interactions which could, in turn, influence client credibility. Auditors frequently interact with a variety of client personnel across the organization, not only the CFO. Therefore, these interactions and likely influence auditors' evidence assessments. While this is a limitation, the experimental setting allowed for the isolation of the effects of gender and negotiation style more effectively. Furthermore, this study does not take into the account the review process which could mitigate unfavorable judgments. Future studies incorporating multiple client personnel and the review environment would complement the current study.

Another potential limitation is the gender composition in the participant base. The study's participants were predominately male (64.6%). Females represented five to 10 participants per cell. However, there were no significant differences between male and female auditors in regards to age, audit experience, and negotiation experience. Research supports that females are generally more risk averse (Byrnes, Miller, & Schafer, 1999) and they process information differently than men (O'Donnell & Johnson, 2001) suggesting that auditor judgments might vary by gender. Interestingly, there were no significant differences between male and female auditors in the initial likelihood to propose an adjustment or the amount of the initial adjustment. Finally, women are underrepresented in the higher ranks of public accounting, which were the target participants of this study. Overall, women comprise less than one-quarter of partners but are increasingly represented at lower levels (AICPA - Women's Initiatives Executive Committee, 2017). Therefore, the sample was representative of the current gender composition of manager and partner level auditors. However, future studies could consider how client gender influences the judgments of lower-ranked auditors.

This study's sample size did not allow for the examination of the effects of participant gender, or the interaction of auditor and client gender.[13] Future research could examine the interaction from a social identity theory perspective. Social identity theory states that an individual's social identity is a result of a categorization process where individuals collectively group themselves with others. These classifications include occupation, organization, and gender, among others. Those adopting a social identity also internalize the specific group's norms (Bamber & Iyer, 2007). Alternatively, some research supports that women may be harsher judges of other women, especially when

[13] Preliminary testing of the interaction of auditor and client gender is significant ($p = 0.10$). Means indicate that female auditors are less likely to propose an audit adjustment for male CFOs (3.91) than for female CFOs (4.73). Conversely, male auditors propose similar adjustments for both male and female CFOs (4.59 and 4.44, respectively). However, the results should be interpreted with caution due to the relatively small sample size of female auditors.

women speak aggressively and assertively (Rudman, 1998). Understanding negotiations from both the auditor and client perspective could help firms determine best negotiation practices to reduce the influence of contentious client negotiation tactics.

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APPENDIX

Copy of Case Instrument

ONLINE SURVEY CONSENT FORM
KSU IRB Number: Study #19-160

Title of Research Study: Auditing Under the Influence: The Role of Gender in Audit Negotiations

Researcher's Contact Information: Jennifer Hamrick, Ph.D. Candidate, (205) 490-8090 jhamri20@students.kennesaw.edu

Introduction: You are being invited to take part in a research study conducted by Jennifer Hamrick and Jennifer Schafer, of Kennesaw State University, along with Todd DeZoort of the University of Alabama. Before you decide to participate in this study, you should read this form and ask questions about anything that you do not understand.

Description of Project: The purpose of the study is to understand how auditor and client characteristics influence negotiation outcomes.

Explanation of Procedures: Participants will be asked to complete a brief case study and will be asked to propose possible audit adjustments, if required.

Time Required: The approximate time to complete the case study is 10 - 15 minutes.

Risks or Discomforts: There are no known risks of participating in the study.

Benefits: Your thoughts and opinions can assist the auditing profession, academic researchers and regulators to better understand the implications of negotiation outcomes.

Confidentiality: The results of this participation will be anonymous.

Inclusion Criteria for Participation: You must be 18 years of age or older to participate in this study.

Use of Online Survey: IP Addresses will not be collected.
Research at Kennesaw State University that involves human participants is carried out under the oversight of an Institutional Review Board. Questions or problems regarding

these activities should be addressed to the Institutional Review Board, Kennesaw State University, 585 Cobb Avenue, KH3403, Kennesaw, GA 30144

PLEASE PRINT A COPY OF THIS CONSENT DOCUMENT FOR YOUR RECORDS, OR IF YOU DO NOT HAVE PRINT CAPABILITIES, YOU MAY CONTACT THE RESEARCHER TO OBTAIN A COPY.

○ I agree and give my consent to participate in this research project. I understand that participation is voluntary and that I may withdraw my consent at any time without penalty.

○ I do not agree to participate and will be excluded from the remainder of the questions.

INSTRUCTIONS

The pages that follow contain a case and a series of questions. Some questions relate to the case, and some questions are about your audit experience and demographic information.

Please read the case materials, and answer the questions in a way that reflects your honest opinions and judgments. There are no right or wrong answers.

Your responses in the study will be aggregated and averaged with the responses of others to determine general characteristics of professional judgment. No effort will be made to link you to your responses on the following pages.

Thank you in advance for your participation!

Case Information

Assume that you are on the financial statement audit of GlobalTech, Inc. for the year ended December 31, 2018. GlobalTech, a publicly-traded company. The firm manufactures a variety of industrial products.

During 2015-2017, GlobalTech's net income grew at a 12 percent annual rate. Selected 2018 unaudited financial data is provided below.

For the year ended December 31, 2018, the relevant (unaudited) balances are:

Sales	$52,497,000	Accounts Receivable	$10,116,625
Cost of Sales	$39,397,000	Inventory	$9,509,375
Net income	$5,370,000	Plant and Equipment	$32,125,000

At this time, you are at the final stage of the audit. You believe that a clean opinion on the financial statements can be given, **pending one potential audit adjustment**. Your focus is on the possible obsolescence of one of the company's historically largest selling products, electronic switchgear. You have scheduled a meeting with the CFO to address the issue further, and the information you have at this point is provided below.

- GlobalTech has 60,000 units of this electronic component in the year-end stock, carried at full absorption cost of $30 each ($1,800,000). This amount is equivalent to six months of sales, at 10,000 units per month. Over the last three years, the average selling price was $50 and delivery costs were about $12.50 per unit.

- Because of frequent technological advances and associated price reductions in competitors' products, it is important that GlobalTech monitor its competitors' new product development and pricing to ensure that inventory is properly valued. Recent information indicates:

    - A more advanced and integrated electronic component is being developed by several competitors.

    - According to the competitors' press releases, the new component might be expected to sell for approximately $40, a figure below the $50 price at which the client historically offered their product. One firm has accepted limited orders for later delivery at $37. However, the client's staff feel this is a temporary marketing strategy.

- Significant pricing changes should be considered for the client to sell existing inventory and continue production.

- The client estimates that it would take at least 8-10 months for the competition to be at full production and notes that many customers can't or won't wait that long for an item not proven.

Given the available information, what is the likelihood that you would propose an adjustment to write down the inventory?

	Extremely unlikely	Moderately unlikely	Slightly unlikely	Neither likely nor unlikely	Slightly likely	Moderately likely	Extremely likely
	○	○	○	○	○	○	○

If you had to make a recommendation at this time, how much should GlobalTech write down the $1.8 million in inventory?

	No proposed write-down	Complete write-down
	0	$1,800,000

[Contentious Negotiation Strategy Condition –Male (Female) CFO]

Your audit team has been auditing GlobalTech for the past three years. In prior interactions, **the client's CFO, Chris (Christine),** has been described as **contentious** and **confrontational**. Discussions regarding proposed audit adjustments typically have been **difficult** and **drawn out**.

When you first mention the potential for an inventory obsolescence reserve on the switchgear impairment loss, **Chris (Christine) expresses his (her) adamant opposition to recording** a write-down.

In further rounds of negotiation with **Chris (Christine)**, he (she) provides this additional information regarding the switchgear component:

"I think it's premature to write off the inventory just yet. While I concur that the competition has designed a technologically superior product, we have been developing a replacement product. We are continuing to produce the old design of the switchgear to serve existing customer needs until the commercial success and cost competitiveness of the new technology is established, most likely by the end of the next year. Further, I'm skeptical about the adequacy of the competition's test of the new technological device. I believe that the competition might be attempting to prematurely market the device.

Our international marketing team has also been exploring options. They have aggressively marketed several older technology products in developing nations around the world. Past experience indicates that there is a healthy third-world market for electronic components, such as the old switchgear. Preliminary analyses indicate that 5,000 units per month could be expected, conservatively, to sell in these foreign markets. At a price that would yield positive profit margins."

Chris (Christine) reiterates his (her) **strong reservations** about the proposed audit adjustment, and has indicated that he (she) is **opposed to recording any amount of the proposed audit adjustment.**

[Concessionary Negotiation Strategy Condition – Male (Female) CFO]

Your audit team has been auditing GlobalTech for the past three years. In prior interactions, **the client's CFO, Chris (Christine),** has been described as **collaborative** and **open to compromise**. Discussions regarding proposed audit adjustments typically have been **amicable** and **succinct.**

When you first mention the potential for an inventory obsolescence reserve on the switchgear impairment loss, **Chris (Christine) expresses his (her) willingness to discuss** whether a write-down is necessary.

In further rounds of negotiation with **Chris (Christine)**, he (she) provides this additional information regarding the switchgear component:

"I think it's premature to write off the inventory just yet. While I concur that the competition has designed a technologically superior product, we have been developing a replacement product. We are continuing to produce the old design of the switchgear to serve existing customer needs until the commercial success and cost competitiveness of the new technology is established, most likely by the end of the next year. Further, I'm skeptical about the adequacy of the competition's test of the new technological device. I believe that the competition might be attempting to prematurely market the device.

Our international marketing team has also been exploring options. They have aggressively marketed several older technology products in developing nations around the world. Past experience indicates that there is a healthy third-world market for electronic components, such as the old switchgear. Preliminary analyses indicate that 5,000 units per month could be expected, conservatively, to sell in these foreign markets. At a price that would yield positive profit margins."

Chris (Christine) reiterates his (her) **reservations** about the proposed audit adjustment, but has indicated that he (she) is **willing to consider carefully whether some amount of the proposed audit adjustment is reasonable.**

[All participants receive the following questions, with the relevant CFO name]

After considering the information provided by the CFO (**Chris/Christine**), what is the likelihood that you would propose an inventory write-down in this case?

	Extremely unlikely	Moderately unlikely	Slightly unlikely	Neither likely nor unlikely	Slightly likely	Moderately likely	Extremely likely
	○	○	○	○	○	○	○

Please indicate the $ amount of the inventory write-down that you believe will ultimately be recorded in the client's audited financial statements.

	No proposed write-down	Complete write-down
	0	$1,800,000

Please indicate the $ amount of the **minimum** inventory write-down that you are willing to accept before issuing a clean audit opinion.

	No proposed write-down	Complete write-down
	0	$1,800,000

How strong is the CFO's argument against writing down the inventory?

	Very weak						Very strong
	○	○	○	○	○	○	○

Please explain why you decided what you did about the inventory write-down issue.

____

How credible to you perceive **Chris (Christine)** to be?

	1	2	3	4	5	6	7
	○	○	○	○	○	○	○

How would you characterize **Chris's (Christine's)** position (attitude) during auditor-client negotiations?

	Completely inflexible						Completely flexible
	○	○	○	○	○	○	○

Based on your experiences with audit clients, how would you characterize **Chris's (Christine's)** behavior?

	Completely expected		Neutral		Completely unexpected
	○	○	○	○	○

How did **Chris's (Christine's)** attitude during the negotiation affect your willingness to want to work to find a final position that was satisfactory for both you and the client?

	Made me less willing		No Effect		Made me more willing
	○	○	○	○	○

Please indicate your perceptions of **Chris (Christine)** by choosing the appropriate number between the pairs of adjectives below. The closer the number is to an adjective, the more certain you are of your evaluation.

	1	2	3	4	5	6	7	
Intelligent	○	○	○	○	○	○	○	Unintelligent
Untrained	○	○	○	○	○	○	○	Trained
Cares about me	○	○	○	○	○	○	○	Doesn't care about me
Honest	○	○	○	○	○	○	○	Dishonest
Has my interests at heart	○	○	○	○	○	○	○	Doesn't have my interests at heart
Untrustworthy	○	○	○	○	○	○	○	Trustworthy
Inexpert	○	○	○	○	○	○	○	Expert
Self-centered	○	○	○	○	○	○	○	Not self-centered
Concerned with me	○	○	○	○	○	○	○	Not concerned with me
Honorable	○	○	○	○	○	○	○	Dishonorable
Informed	○	○	○	○	○	○	○	Uninformed
Moral	○	○	○	○	○	○	○	Immoral
Incompetent	○	○	○	○	○	○	○	Competent
Unethical	○	○	○	○	○	○	○	Ethical
Insensitive	○	○	○	○	○	○	○	Sensitive
Bright	○	○	○	○	○	○	○	Stupid
Phony	○	○	○	○	○	○	○	Genuine
Not Understanding	○	○	○	○	○	○	○	Understanding
Unexperienced	○	○	○	○	○	○	○	Experienced
Unfriendly	○	○	○	○	○	○	○	Friendly
Likeable	○	○	○	○	○	○	○	Unlikeable

What is the CFO's gender?

- ◯ Female
- ◯ Male
- ◯ Unsure

How realistic do you find this case?

	NOT AT ALL REALISTIC						VERY REALISTIC
	◯	◯	◯	◯	◯	◯	◯

How understandable do you find this case?

	NOT AT ALL UNDERSTANDABLE						VERY UNDERSTANDABLE
	◯	◯	◯	◯	◯	◯	◯

General Demographic Information

The questions that follow are for classification purposes only. You are not required to provide your name and your responses will therefore be anonymous and kept strictly confidential. In what profession are you currently employed?

- ○ Insurance
- ○ Banking / Finance
- ○ Accounting
- ○ Marketing
- ○ Information Technology
- ○ Management
- ○ Other

What is your current job title?

____

Please indicate the % of your time is spent in the following areas

- ☐ Auditing __________
- ☐ Tax Consulting & Compliance __________________
- ☐ Business Consulting _______________
- ☐ Firm Administration ___________
- ☐ Other ___________

What is your age?

- ○ Under 25
- ○ 25 - 30
- ○ 31 - 40
- ○ 41 - 49
- ○ 50 and over

What is your gender?

- ○ Female
- ○ Male

What state is your office located? (Drop down menu with all states as options)

▼ Alabama ... I do not reside in the United States

What is the classification of your office?

◯ Big 4 Firm

◯ International Firm

◯ Local Firm

◯ National Firm

◯ Regional Firm

Please provide your total years of **audit experience**

____

How much experience do you have **negotiating audit adjustments** with clients?

	Very experienced			Neither experienced or inexperienced			Very inexperienced
	◯	◯	◯	◯	◯	◯	◯

In what industry is the majority of your audit clients?

____

How often have you negotiated with your clients in the past three years to resolve a financial reporting issue?

	Every audit engagement	Very Often	Often	Occasionally	Never
	○	○	○	○	○