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Effect of Auditor Negotiation Experience and Client Negotiating Style on Auditors' Judgments in an Auditor-Client Negotiation Context

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SUMMARY: In this paper, we present the results of an experiment that investigates the effects of two factors—auditors' negotiation experience and client negotiation style—on auditors' perceived ultimate negotiation outcome in terms of an asset impairment writedown. We show that negotiation experience leads to a higher perceived ultimate negotiated writedown for a client with a contentious negotiation style, suggesting that negotiation experience reaps benefits when it is needed most (i.e., when the client is difficult to deal with). Negotiation experience has no effect for a client with a collaborative negotiation style. We also find that the effect of client negotiation style on auditors' perceived negotiation outcome is contingent on the auditors' negotiation experience. Inexperienced auditors perceive a lower ultimate negotiated writedown when dealing with a contentious rather than a collaborative negotiation style client. In contrast, experienced auditors' perceived negotiation writedown is not affected by the client negotiation style.

Keywords: auditors' negotiation experience; client negotiation style; negotiation outcome.

Data Availability: Contact the authors.

INTRODUCTION

The use of subjective judgment is pervasive in the preparation of financial statements, and disputes often arise between clients and auditors over accounting issues where GAAP is unclear (Gibbins et al. 2001; Gibbins et al. 2005; Tan and Trotman 2010). These disputes entail negotiations between clients and auditors, and financial statements have been characterized as

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a product of auditor-client negotiations (Antle and Nalebuff 1991). The outcomes of these negotiations have significant implications on audit quality and financial statement quality, and it is important to understand determinants that influence negotiation judgments made during auditor-client negotiations.

Auditors and client managers bring to bear on auditor-client negotiations their own particular characteristics that influence judgments made during these negotiations. In this study, we investigate how client negotiation style (a client characteristic) and the auditor's negotiation experience (an auditor characteristic) *jointly* influence auditors' perceived negotiation outcome. Although prior studies have examined each characteristic separately (e.g., see Hatfield et al. 2008; Trotman et al. 2009), auditor-client negotiations likely entail variations in *both* characteristics. For instance, partners interviewed in Hatfield et al. (2008, 1190) indicate that audit clients vary in terms of whether they are collaborative or contentious negotiators. Auditors who enter into negotiations over audit adjustments with these different types of clients also vary in terms of their negotiation experience. Currently, the literature does not inform us on how these factors interact.

We conduct an experiment in which auditors provide judgments relating to the final outcome of negotiation with the client over the amount of an impairment loss on a production line. We measure auditors' negotiation experience and manipulate client negotiation style (contentious or collaborative). Our results show that auditors' negotiation experience and client negotiation style interact to affect auditors' perceived ultimate negotiation outcome. Specifically, client negotiation style moderates the effect of auditor negotiation experience. With a contentious negotiation style client, auditors with greater negotiation experience perceive a higher ultimate negotiated writedown compared to those with lower negotiation experience. In contrast, there is no experience effect for collaborative negotiation style clients. Similarly, auditor negotiation experience also moderates the effect of client negotiation style. Lower negotiation experience auditors perceive a lower writedown for contentious than collaborative negotiation style clients; there is no effect of client negotiation style for higher negotiation experience auditors.

Our results have important implications. For instance, an inference from prior research demonstrating benefits of auditor negotiation experience on negotiation outcomes (e.g., Trotman et al. 2009) is that public accounting firms will gain from assigning auditors with greater negotiation experience to auditor-client negotiations, in that expected writedowns are higher (or more conservative) for audit partners than audit managers. We show that the benefit of greater negotiation experience is contingent on client negotiation style—there is a benefit to assigning auditors with greater negotiation experience to negotiate with a contentious negotiation style client, but not for a client with a collaborative negotiation style. Thus, there are potential effectiveness and efficiency gains from matching auditor negotiation experience (an auditor attribute) with client negotiation style (a client attribute). Our study is also helpful to audit researchers when they design negotiation experiments, specifically with respect to whether the negotiation experience level of participants matters in the contexts they examine. As an illustration, consider Hatfield et al. (2010), where the client negotiation style can be inferred to be relatively collaborative, in that in each successive negotiation round, the client makes a concession that mirrors the magnitude of concession made by the auditor in the previous negotiation round. In this case, our theory suggests that negotiation experience should not matter, and as expected, Hatfield et al. (2010) find no moderating effect of negotiation experience. In other studies, it can be inferred that the client negotiation style is likely contentious. For instance, in Trotman et al. (2009, 196), the client manager is described to be "very upset about the proposed adjustment and has reiterated its strong reservations about any adjustment." Trotman et al. (2009) find an experience effect. This design choice of a client with a potentially contentious negotiation style matches the authors' research question of demonstrating an effect of negotiation experience.

Our study also contributes to the literature on the effect on auditor judgments of negotiations with clients that vary in their negotiation style. Hatfield et al. (2008) show that when client negotiation style is contentious (as opposed to collaborative), auditors tend to use a reciprocity-based strategy when there is a higher risk of losing the client; however, client negotiation style does not affect the number of audit adjustment posted (a negotiation outcome). We contribute to this literature by showing that, other than an impact on auditors' strategy use (Hatfield et al. 2008), client negotiation style impacts auditors' perceived negotiation outcome in that auditors perceive a lower writedown with a client negotiation style that is contentious (versus collaborative). We also provide evidence that the effect of client negotiation style is moderated by auditor negotiation experience. Thus, while we posit a potential cost (in terms of lower perceived ultimate writedown) to audit effectiveness and financial statement quality from auditors negotiating with a contentious versus collaborative negotiation style client, we also posit a remedy—auditor negotiation experience can moderate the effect of client negotiation style in that client negotiation style has an impact on auditors with lower negotiation experience, but not on those with greater negotiation experience. An implication is that where the public accounting firm has little background information on the negotiation style of the client (e.g., a new client or new chief financial officer), assigning an auditor with greater negotiation experience is likely to be a "safe" option since this auditor is more likely to be immune to the negotiation style adopted by the client.[1]

The following section develops our research hypotheses. This is followed by a description of the research methods and findings. The paper concludes with a summary of the key results, limitations, and discussion of the implications of our findings.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Effect of Collaborative versus Contentious Client Negotiation Style on Perceived Negotiation Outcome

Audit clients have negotiation power in auditor-client negotiations in that they have influence over the hiring/firing of auditors and the determination of audit fees. Results of recent surveys indicate that financial controllers play an important role in the determination of auditor compensation and retention, post the passage of the Sarbanes-Oxley Act (KPMG 2004; Cohen et al. 2010).

Financial managers (representing the audit client) can be contentious or collaborative in the way they negotiate with auditors (Hatfield et al. 2008). A negotiator's approach to a conflict affects the negotiation setting (Pruitt and Carnevale 1993), the other's behavior, and the outcome of the issue under dispute (Schwenk 1990; Wilson and Waltman 1988). Prior research indicates that financial controllers who are dissatisfied with the outcome of a negotiation with the auditor are less likely to continue a relationship with the auditor (Sanchez et al. 2007; Tan and Trotman 2010). This implies that the contentious negotiation style client (who is unwilling to post an audit adjustment) is more likely to be both dissatisfied with an auditor who puts through such an audit adjustment, and less willing to continue a relationship with this auditor.

In a recent study, Hatfield et al. (2008) find that client negotiation style influences auditors' propensity to use a reciprocity-based strategy. They operationalize the use of a reciprocity-based strategy in terms of whether the auditor brings inconsequential audit adjustments to the negotiation with the intention of waiving them later, as opposed to waiving the inconsequential audit adjustments up front prior to the negotiation. The idea is that the use of reciprocity-based strategy

[1] In contrast, where there is prior knowledge of the client negotiation style, it may be inefficient to always assign auditors with greater negotiation experience to all clients.

American Accounting Association

induces the client to reciprocate by also being more concessionary in his or her negotiations with the auditor. In their experiment, the client is either contentious or collaborative in prior negotiations with the auditor. Their results show that auditors' propensity to use a reciprocity-based strategy is greater with a contentious negotiation style client when there is also a greater risk of losing the client. However, there is no auditor concession across conditions in terms of total items and the number of significant items that are posted. A conclusion that may be drawn here is that client negotiation style influences the auditors' use of a reciprocity-based strategy, but has no direct effect on the negotiation outcome (in terms of items posted). We note that in Hatfield et al.'s (2008) experiment, auditors decide whether to book or waive an audit adjustment (a binary-choice dependent variable), but do not make assessments of the *level* of audit adjustments, given a decision to book an audit adjustment.

Prior research has shown that auditors acquiesce to the client's preferences when there is subjectivity in GAAP as to the appropriate approach (Hackenbrack and Nelson 1996; Kadous et al. 2003). This suggests that, to the extent that GAAP requires the booking of the item but allows some latitude in the amount of the proposed audit adjustment, the auditor likely believes that a concession in terms of reducing the level of the proposed audit adjustment is necessary to satisfy the client's preferences. An auditor faced with the prospect of negotiating with a contentious negotiation style client likely anticipates that the client will strongly oppose the booking of the proposed audit adjustment and that the client expects a concession. In contrast, with a collaborative negotiation style client, the client likely agrees with the auditor's proposed audit adjustment to the extent that it is GAAP consistent, and there is less necessity on the part of the auditor to offer concessions to the client to satisfy the client's preferences. Given prior literature indicating that auditors acquiesce to the client's preferences where there is some available latitude (e.g., Hackenbrack and Nelson 1996), we posit that auditors will perceive that the ultimate negotiated outcome (in terms of the level of income-reducing audit adjustment) is lower in the case of a contentious negotiation style client (who has a strong preference for no audit adjustment) than a collaborative negotiation style client (who has a weaker or no preference).

We next discuss prior findings on negotiation experience effects, and then develop our hypotheses on the joint effect of client negotiation style and auditor negotiation experience.

Effect of Auditors' Negotiation Experience

Recent studies document the beneficial effects of auditor rank or negotiation experience on negotiation outcomes. For instance, Trotman et al. (2009) find that partners' estimates of the maximum writedown the client is willing to accept are greater than managers' estimates, and that partners are firmer than managers in calling for a higher initial proposed writedown, minimum writedown, and expected writedown. Brown and Johnstone (2009) document that auditors in the lower negotiation experience/high engagement risk condition feel the greatest pressure to succumb to the client's preferences and correspondingly have the least conservative negotiation outcome compared to auditors in the other conditions.[2]

Psychology literature also indicates that negotiation experience helps achieve better negotiation outcomes (Thompson 1990a, 1990b; Murnighan et al. 1999), and documents that this effect is mediated by the strategies used during negotiations (Steinel et al. 2007). Research in auditing provides evidence consistent with the argument that negotiation experience is associated with

[2] Brown and Johnstone (2009) do not report the test of simple main effects, but the means reported for the cells (see Brown and Johnstone 2009; Table 2) suggest that higher experience auditors achieve more conservative outcomes than lower experience auditors (lower experience/low engagement risk = \$369,667; lower experience/high engagement risk = \$388,133; higher experience/low engagement risk = \$333,000; higher experience/high engagement risk = \$350,778).

knowledge of negotiation strategies to employ during auditor-client negotiations. For instance, Brown and Johnstone (2009) show that compared to auditors with more negotiation experience, those with less negotiation experience tend to use a concessionary negotiation strategy. McCracken et al. (2011) find general support for their predictions that, compared to audit partners, managers are more likely to intend to use integrative and concessionary strategies, but less likely to intend to use contending strategies; they do find some instances where these rank effects differ according to the context.[3]

Interaction of Auditors' Negotiation Experience and Client Negotiation Style

An auditor with lower negotiation experience is likely to be less aware of the requisite strategies to deal with a contentious negotiation style client and is therefore more likely to concede to the client. In contrast, an auditor with greater negotiation experience likely brings to bear on the negotiation process knowledge about strategies on how to deal with clients on negotiations pertaining to audit adjustments (Brown and Johnstone 2009; McCracken et al. 2011) in order to successfully put through the audit adjustment desired by the auditor. Consequently, the auditor with greater negotiation experience is less likely to concede to a contentious negotiation style client's demand to waive the proposed audit adjustment compared to one with lower negotiation experience. In contrast, negotiation with a collaborative client does not pose many challenges to the auditor and may be conducted with relative ease for auditors with varying levels of negotiation experience. Hence we expect a smaller effect of auditor negotiation experience on their perceived negotiation outcomes for a collaborative negotiation style client. We formally state our hypothesis on how the effect of negotiation experience is moderated by client negotiation style (see Figure 1, Panel A):

> **H1a:** For a contentious negotiation style client, auditors with greater negotiation experience will perceive a final negotiation outcome that is higher than those with lower negotiation experience; this negotiation experience effect is smaller for a collaborative negotiation style client.

The discussion above also suggests that the effect of client negotiation style (Hatfield et al. 2008) is contingent on auditors' negotiation experience, leading to the following hypothesis (see Figure 1, Panel B):

> **H1b:** Auditors with lower negotiation experience will perceive a final negotiation outcome that is lower for a contentious than a collaborative negotiation style client; the effect of client negotiation style will be smaller for auditors with higher negotiation experience.

METHOD

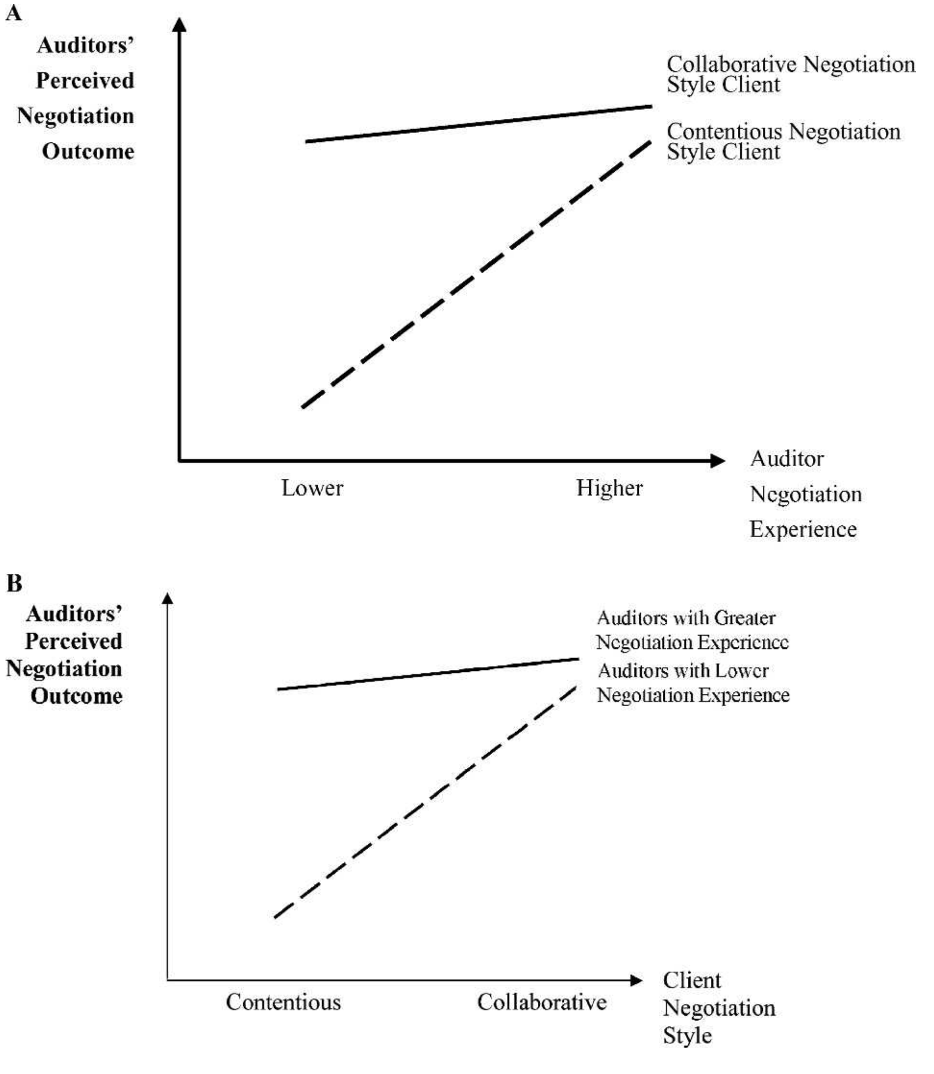
Participants

Ninety-nine audit managers and partners from one of the Big 4 CPA firms in China completed the experiment during a regular training session. Managers and partners are the appropriate participants in this study because they routinely negotiate with clients to resolve complex financial accounting issues. Three did not provide data on their demographic background and were dropped.

[3] In McCracken et al. (2011), the contexts relate to the auditor-client management relation (whether it is long term with mutual respect, the CFO is not a professional accountant and faces staff turnover, the internal audit department is competent, and client management values the audit services) and the client's flexibility in terms of its initial position.

FIGURE 1
Hypothesized Ordinal Interaction of Auditors' Negotiation Experience and Client Negotiation Style on Auditors' Judgments of Negotiation Outcome

Panel A: Moderating Effect of Client Negotiation Style on Auditor Negotiation Experience
Panel B: Moderating Effect of Auditor Negotiation Experience on Client Negotiation Style



The final sample comprised 20 partners (21 percent) and 76 managers (79 percent), with mean years of audit experience of approximately 12.1 and 7.2 years, respectively.

Design

We employed a 2×2 between-subjects factorial design, with auditors' negotiation experience (a measured variable) and client negotiation style (manipulated as either contentious or collaborative) as the independent variables. The case information provided to participants contained a brief description of the hypothetical company, selected financial information, the accounting issue, and the client management's initial response after being contacted by the participants. The issue involved the amount of an impairment loss on a production line due to intense competition and a decrease in expected future net cash flows. The $1.8 million audit adjustment represented the difference in the impairment loss recognized by the client and that proposed by the audit team. The current year's fixed assets were $150 million, which was about 44 percent of total assets of $340 million. The estimate of fixed asset impairment loss was inherently subjective, and the audit adjustment was very close to the $1.9 million materiality level for the financial statements taken as a whole and should be posted to avoid material misstatement of the financial statements.[4]

Unlike Hatfield et al.'s (2008) study, which uses a setting where there is a high risk of losing the client (specifically, the client is seeking bids for next year's audit), we employ a setting where there is a low risk of losing the client. We use a more general setting as a design choice as we reason that a situation where the client is actively seeking bids is not likely to be a common scenario that the auditor encounters when he/she prepares for a negotiation with the client. Our setting biases against finding support for our hypotheses since the risk of losing the client is low.

We measured the first independent variable, auditors' negotiation experience, in two ways.[5] Following Brown and Johnstone (2009), we asked participants to indicate the number of client-auditor interactions that they had completed in the past three years to resolve (1) a complex and material financial reporting issue (mean = 29.3, median = 14, standard deviation = 28.9, range = 0 to 70 times), and (2) a complex financial reporting issue that approached materiality level (mean = 16.6, median = 5, standard deviation = 20.2, range = 0 to 50 times). These two measures are highly correlated (Pearson r = 0.71), and we averaged participants' responses to these two questions to create a composite negotiation experience measure (mean = 23.0, median = 11, standard deviation = 22.7, range = 0 to 60 times).[6] The Cronbach's alpha was relatively high (0.800).

We manipulated our second independent variable, client negotiation style. Our manipulation was adapted from Hatfield et al. (2008). In their experiment, Hatfield et al. (2008) manipulate the client negotiation style by describing whether the client has been contentious or reasonable in past negotiations. Because prior research indicates that negotiation style can be situational rather than dispositional (Knapp et al. 1988; Rahim 1992), we provided descriptions of both the client negotiation style in the past and client management's initial response on the current issue. Specifically, participants in the contentious client negotiation style condition were informed that in prior interactions, the chief financial officer (CFO) of the company had adopted a tough stand and

[4] Although the audit adjustment is just below materiality level, we anticipate that auditors would likely want to post at least part of the proposed adjustment to provide a buffer for any undetected misstatements that may be present. Two audit managers we consulted during the design phase verified this. They indicated that although the audit adjustment of $1.8 million approached overall materiality (but was not at the overall materiality level of $1.9 million), they would require the client to make the audit adjustment because any other small undiscovered audit difference could push the overall misstatement to exceed planned materiality levels. The audit adjustment of $1.8 million is about 3.7 percent of net income (which is below a 5 percent rule-of-thumb threshold, but above a 3 percent rule-of-thumb threshold documented in Arens et al. 2008).

[5] The Pearson correlation between general audit experience and negotiation experience is 0.208 ($p = 0.014$). The Spearman correlation between rank and negotiation experience is low at 0.034 ($p = 0.696$). By way of comparison, the corresponding correlation coefficients reported in Brown and Johnstone (2009) are also low at 0.143 ($p = 0.254$) and 0.238 ($p = 0.056$). When we use general audit experience or rank as a proxy for negotiation experience, we only find a significant main effect of client negotiation style ($p < 0.004$), and no other main or interaction effect ($p > 0.295$). Both Bame-Aldred and Kida (2007) and Brown and Johnstone (2009) note a low association between general audit experience and negotiation judgments.

[6] These two experience measures, along with the composite measure, do not vary by client negotiation style ($p > 0.882$); neither does general audit experience or rank ($p = 0.179$ and 0.373, respectively).

had been typically reluctant to post audit adjustments. With respect to the current audit adjustment, the CFO had expressed his reservations in recording the audit adjustment. Participants in the collaborative client negotiation style condition were informed that the CFO had been reasonable and open to changes in discussions with the auditor over accounting adjustments. With respect to the current audit adjustment, the CFO expressed his willingness to consider it carefully and would like to have further discussions with the auditor over the amount of the adjustment.

After reading the case information, we asked participants to indicate their perceived ultimately recorded negotiation outcome. Following Libby and Kinney (2000) and Ng and Tan (2003), we asked the following question: "Suppose that you have had a few rounds of discussions and negotiations with the client's manager. Indicate the amount of the proposed audit adjustment that you believe will ultimately be recorded in the client's audited financial statements." Participants then completed questions relating to the manipulation check and their demographic background.

RESULTS

Manipulation Check

To assess participants' awareness of client negotiation style, we asked participants to respond to the question, "How would you characterize the CFO's position during auditor-client negotiations?" (0 = "extremely flexible in his position" and 9 = "extremely inflexible in his position"). Our expectation is that the CFO who has a contentious (collaborative) negotiation style will be viewed to be less (more) flexible in his position. The mean responses are 6.16 and 4.68 for the contentious and collaborative client negotiation style conditions, respectively, which are significantly different and directionally consistent with our manipulation (p-value < 0.001, two-tailed).[7]

Tests of Hypotheses

We test our hypotheses using regression analyses, with the mean-centered composite experience measure (as a continuous variable), client negotiation style, and the two-way interaction as independent variables. Results are shown in Table 1, Panel A. We find that the main effects of experience and negotiation style are significant at $p = 0.012$ and 0.003, respectively, and the interaction term is marginally significant at 0.073 (one-tailed). To test H1a, we conduct separate regressions (one for each client negotiation style) of perceived negotiation outcome on negotiation experience (see Table 1, Panel B). We find a positive and significant slope for experience when the client negotiation style is contentious ($p = 0.012$, one-tailed) and an insignificant slope for experience when the client negotiating style is collaborative ($p = 0.201$). To test H1b, we conduct the test of simple slopes (Aiken and West 1991). We find that the slope of client negotiation style is significant at one standard deviation below the mean of the experience measure ($p = 0.001$, one-tailed) and insignificant at one standard deviation above the mean of the experience measure ($p = 0.255$). This result is consistent with H1b.

We also report ANOVA analyses by using a median split on the negotiation experience variable. Table 2, Panel A presents the descriptive statistics by conditions. The negotiation outcome judgments range from \$0 (i.e., completely waive the audit adjustment) to \$1.8 million (i.e., completely book the audit adjustment); higher values represent a greater writedown of the client's

[7] The manipulation check responses are not moderated by negotiation experience. We conduct a 2×2 ANOVA with the manipulation check question as a dependent variable, and client negotiation style and negotiation experience as between-subjects factors. We find a significant main effect for client negotiation style ($p < 0.001$), and no significant main effect of negotiation experience ($p = 0.834$) or interaction effect ($p = 0.545$).

TABLE 1

Regression Analyses of Auditors' Perceived Ultimate Negotiation Outcome[a] on Auditors' Negotiation Experience and Client Negotiation Style

Panel A: Regression Results

Independent Variable	Unstandardized Regression Coefficient	t	p-value
Intercept	153.58	27.64	0.000
Client negotiation style[b]	−17.26	−3.109	0.003
Auditors' negotiation experience[c]	14.42	2.577	0.012
Client negotiation style × Experience	8.22	1.469	0.073*
$R^2 = 0.17$			

Panel B: Test of Hypotheses

Independent Variable	Unstandardized Regression Coefficient	t	p-value
Test of H1a:			
Contentious client: Effect of negotiation experience	22.63	2.325	0.012*
Collaborative client: Effect of negotiation experience	6.20	1.298	0.201
Test of H1b:			
Slope of client negotiation style at one standard deviation below the mean of the negotiation experience measure	−25.48	−3.234	0.001*
Slope of client negotiation style at one standard deviation above the mean of the negotiation experience measure	−9.043	−1.146	0.255

* One-tailed p-values for directional expectations; all other p-values are two-tailed.

[a] The dependent variable was the amount of the proposed audit adjustment relating to an impairment loss that auditors believed would ultimately be recorded in the client's audited financial statements.

[b] Client negotiation style was manipulated at two levels: collaborative (coded 0) or contentious (coded 1).

[c] Auditors' negotiation experience was computed as the average of two measures: number of client-auditor interactions in the past three years to resolve a complex financial reporting issue that (1) was material and (2) approached materiality.

fixed assets. On average, across all experimental conditions, participants' perceived ultimately booked audit adjustment is $1.53 million.

Table 2, Panel B reports the ANOVA results, which show a significant main effect of client negotiation style ($p = 0.003$) and marginally significant main effect of auditors' negotiation experience ($p = 0.073$); the interaction effect is not statistically significant ($p = 0.121$, one-tailed).[8] Our prediction involves an ordinal interaction, and we use contrast coding (Buckless and Ravenscroft 1990; Rosnow and Rosenthal 1995) to analyze the predicted interaction (see Table 2, Panel C for contrast weights). As can be seen in Table 2, Panel C, the contrast is statistically

[8] Our negotiation experience measure is not normally distributed (Kolmogorov-Smirnov test for normality, $p = 0.001$), and we test the sensitivity of our median-split results by splitting the negotiation experience into two groups based on whether they fall into the top or bottom one-third/quartile. Results are stronger in both cases. The experience by client negotiation style interaction is at least marginally significant ($p = 0.069$ using the 1/3 split, $p = 0.004$ using the quartile split; one-tailed), and results for all other contrasts are similar to those using a median-split.

TABLE 2

Effect of Auditors' Negotiation Experience (Dummy Variable) and Client Negotiation Style on Auditors' Perceived Ultimate Negotiation Outcome[a]

Panel A: Descriptive Statistics (in $ Millions)

		Auditors' Negotiation Experience[c]		
Client Negotiation Style[b]		**Inexperienced**	**Experienced**	**Average**
Contentious	Mean	1.192	1.532	1.366
	(S.D.)	(0.813)	(0.602)	(0.726)
	Sample size	24	25	49
Collaborative	Mean	1.671	1.744	1.706
	(S.D.)	(0.396)	(0.215)	(0.319)
	Sample size	24	23	47
Average	Mean	1.432	1.633	1.532
	(S.D.)	(0.677)	(0.467)	(0.587)
	Sample size	48	48	96

Panel B: ANOVA Results

Independent Variable	df	F	p-value
Client negotiation style	1	9.216	0.003
Auditors' negotiation experience	1	3.293	0.073
Client negotiation style × Experience	1	1.382	0.121*

Panel C: Planned Contrasts

	df	F	p-value
Overall test of H1a/H1b: assigned contrast weights: −3 to the lower experience/contentious group, −1 for the lower experience/collaborative group, and +2 for the higher experience/contentious and higher experience/collaborative group	1	7.312	0.004*

Panel D: Simple Main Effects

	df	F	p-value
Simple main effect of auditors' negotiation experience (H1a)			
Contentious negotiation style	1	4.566	0.018*
Collaborative negotiation style	1	0.200	0.656
Simple main effect of client negotiation style (H1b)			
Lower negotiation experience	1	8.876	0.002*
Higher negotiation experience	1	1.729	0.192

* One-tailed p-values for directional expectations; all other p-values are two-tailed.

[a] The dependent variable was the amount of the proposed audit adjustment relating to an impairment loss that auditors believed would ultimately be recorded in the client's audited financial statements.

[b] Client negotiation style was manipulated at two levels: collaborative (coded 0) or contentious (coded 1).

[c] Auditors' negotiation experience was computed as the average of two measures: number of client-auditor interactions in the past three years to resolve a complex financial reporting issue that (1) was material and (2) approached materiality. We perform a median split on the variable.

significant ($F = 7.312$, $p = 0.004$, one-tailed), consistent with our prediction and the graphical depiction in Figure 1.

The test of simple main effects indicates that when the client negotiation style is contentious, auditors with greater negotiation experience report a higher perceived negotiated writedown than those with lower negotiation experience (means = 1.532 and 1.192, respectively; $F = 4.566$, $p = 0.018$, one-tailed). In contrast, when the client negotiation style is collaborative, the difference in auditors' perceived negotiation writedown is not statistically significant (means = 1.744 and 1.671, respectively; $F = 0.200$, $p = 0.656$). These results are consistent with H1a. Also, consistent with H1b, for auditors with lower negotiation experience, perceived negotiated writedowns are significantly lower with a contentious rather than a collaborative negotiation style client (means = 1.192 and 1.671, respectively; $F = 8.876$, $p = 0.002$, one-tailed); for auditors with greater negotiation experience, there is no effect regardless of whether the client negotiation style is collaborative or contentious (means = 1.744 and 1.532, respectively; $F = 1.729$, $p = 0.192$).

CONCLUSION

We conduct an experiment using audit partners and managers as participants on a task dealing with a subjective impairment loss on fixed assets, and show that client negotiation style and auditors' negotiation experience jointly influence auditors' perceived negotiation outcome. Our results extend two related streams of research on auditor-client negotiations that separately document effects of client negotiation style and negotiator experience on auditors' negotiation judgments.

For instance, one stream of research shows that higher auditor rank leads to better negotiation outcomes (e.g., Trotman et al. 2009), and that auditors with lower negotiation experience have less conservative negotiation judgments particularly when engagement risk is high (see Brown and Johnstone 2009). We complement this literature by showing that one benefit of negotiation experience relates to negotiations with contentious negotiation style clients—auditors with more negotiation experience perceive a higher writedown than less experienced auditors when facing a client with a contentious negotiation style, suggesting that greater negotiation experience reaps benefits when it is needed most (i.e., when the client is difficult to deal with). Thus, a practical implication of our results is that audit firms would benefit by assigning auditors with greater negotiation experience to negotiate with clients who are known to be contentious during auditor-client negotiations.

Another stream of research (e.g., Hatfield et al. 2008) shows that client negotiation style influences auditors' strategy use (in terms of their proclivity to use a reciprocity-based strategy). We extend this research by showing that the effect of client negotiation style on the auditors' perceived ultimate negotiation outcome is contingent on the auditors' negotiation experience—client negotiation style has no effect when auditors have higher negotiation experience, and only has an effect when auditors have lower negotiation experience.

We note some limitations of our study, along with opportunities for future research. We proxy negotiation expertise using the auditors' negotiation experience, and a more direct proxy would be to measure their negotiation knowledge. Following Brown and Johnstone (2009), we limited our measure of negotiation experience to the number of auditor-client negotiation interactions auditors had in the past three years. While this measure, capturing their negotiation experiences over a shorter period, better allows our participants to recall their negotiation experiences, it may not be representative of their negotiation experiences over their career. Another limitation is that the audit adjustment in the case used in our experiment was not quantitatively material (it amounted to \$1.8 million), which approached but fell below planned materiality of \$1.9 million. Auditors' perceived ultimate negotiation outcome may have been different had the audit adjustment been quantitatively

American Accounting Association

material, in that they may perceive a lower willingness to concede to the client in such an instance. Also, we do not have process or intermediary measures (e.g., auditors' concern about losing the client, auditors' preferred writedowns and goals, auditors' strategy use) to help us understand how the effects occur. Finally, we use the auditors' judged ultimate negotiation outcome rather than directly measure the outcomes from actual negotiations. Measuring actual negotiation outcomes would be an improvement. Negotiations are iterative strategic endeavors, and absent face-to-face negotiations, our study does not capture the richness and complexity that entails actual auditor-client negotiations. For instance, in the context of our study, the client may change his/her strategy in response to the prospect of negotiating with a more experienced auditor, and this strategic response from the client may potentially reduce any benefits that the more experienced auditor brings to bear on the negotiation task. Unraveling the complex interactions between auditors' and clients' negotiation strategies is a fruitful area for future research. Our study takes an incremental step toward understanding this complex interaction.

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