

**AUDITOR-CLIENT NEGOTIATIONS OVER DISPUTED ACCOUNTING ISSUES:
EVIDENCE FROM ONE OF THE NORWEGIAN BIG 4 FIRMS**

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The authors would like to thank the participating audit firm for providing participants and expert guidance in the development of the questionnaire. We thank Michael Gibbins and Steve Salterio for the use of their negotiation questionnaire. We are grateful for the comments of Kjell Gronhaug, Bill Messier, Joe Carcello and Hun-Tong Tan. We also thank the two anonymous reviewers and the editor for many valuable comments and suggestions throughout the review process.

This paper is a copy of the authors' last version of this paper that was sent to the publisher (postprint version). The final article is published in *International Journal of Auditing*, 2018; 22:435-448. DOI: 10.1111/ijau.12129

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ABSTRACT

In this study we investigate data collected in an experiential survey from partners at one of the Norwegian Big 4 audit firms concerning 79 disputed accounting issues resolved by auditor-client negotiations. The study is designed to complement prior experimental findings on the auditors' use of negotiation strategies using a different research method (survey-based retrospective recall). We first investigate which negotiation strategies and tactics audit partners use. We then test three hypotheses (one new and two others that extend prior findings) and find that: (1) the more precise the relevant accounting standard, (2) the more general audit experience or task-specific negotiation experience the auditor has, and (3) the less positive the auditor-client relationship, the more auditors agree that contending tactics were used in their own negotiation strategies. Finally, we test the relative importance of different context variables to the auditor's use of the contending strategy and the negotiated accounting outcome.

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I. INTRODUCTION

Prior auditor-client negotiation research has considered auditors' use of different negotiation strategies that are employed when resolving disputed financial reporting issues (e.g. Brown and Wright, 2008). Some non-experimental studies exist in this stream of research including interview or survey-based studies (e.g. Gibbins et al., 2001, 2007; Beattie et al. 2000, 2004; Hollindale et al., 2011), but most auditor-client negotiation studies are conducted using the experimental method.

Building on the Gibbins et al. studies (2001, 2005, and 2007), the main purpose of this paper is to complement prior experimental findings, in particular in Gibbins et al. (2010), on auditors' use of different negotiation strategies and tactics using survey-based retrospective recall of auditors regarding how they recently resolved a disputed misstatement in the financial statements with their clients.

More specifically, we first investigate which negotiation strategies and tactics auditors used in an experiential setting. We then focus on audit partners' use of contending tactics in relation to three context variables identified by previous research (Gibbins et al. 2001 and 2005) as likely to be associated (either positively or negatively) with the use of a contending negotiation strategy by the auditor. The choice of variables is based on the importance ratings in Gibbins et al. (2001), as well as mixed findings or a lack of findings on the impact of the variables in prior research. These variables are: (1) the precision of the accounting standard related to the issue under dispute (expected positive relationship), (2) the audit partner's negotiation experience, measured both as years of partner experience (a general experience measure) and task-specific negotiation experience (expected positive relationship), and (3) the auditor-client relationship, measured as how positively it is perceived by the auditor (expected negative relationship). Finally, we complement the findings in Gibbins et al. (2001) as we investigate the relative importance of different context variables on auditors' use of the contending negotiation strategy and on the accounting outcome of the negotiation (i.e. who is "winning" the negotiation).

To conduct the study, we collected data from audit partners at one of the Norwegian¹ Big 4 audit firms about 79 audits in which a disputed accounting measurement or valuation issue arose during the period 2007-2009.² Audit partners were asked to identify their three

largest clients (based on audit fees) with whom they had experienced a disputed accounting issue (disagreements about amounts and principles, but not disclosure). We then asked them to answer questions about these disagreements.

We find that: (1) the negotiation tactics that auditors reported they have used are very much aligned with findings in the previous experimental study of Gibbins et al. (2010) as contending and problem solving tactics have the highest scores on the measurement scales. We find, however, an unexpectedly high score on the audit partners' use of the compromising tactic "tried to find some middle ground" which seems to be related to the non-public companies included in the sample; (2) the more precise the accounting standard, the more the auditor agrees that he used the contending negotiation strategy to negotiate disputes regarding uncorrected misstatements in the financial statements; (3) task-specific negotiation experience is more likely to be associated with the auditor's use of the contending strategy than general audit experience: nevertheless partners seem to need a few years of partner practice before they choose the same contending negotiation tactics as more experienced partners; (4) the less positive the auditor-client relationship, the more auditors agree that their negotiation strategy included contending negotiation tactics; and (5) the most important context variable in auditor-client negotiations related to the auditors' use of the contending strategy is the variable measuring the degree of precision in accounting standards, followed by the quality of the relationship between the auditor and the auditors' negotiation experience. Accounting standard precision is the context variable that has the largest impact on the outcome of the negotiation in our sample of negotiations, followed by the auditor's experience. In addition, the more auditors agree that they used the contending negotiation strategy, the more likely it is that the auditor has "won" the negotiation (i.e. the obtained negotiated accounting solution equals the solution initially suggested by the auditor).

This study makes the following contributions. Most prior research on auditors' use of different negotiation strategies have been conducted using the experimental method. We use survey-based retrospective recall and complement prior findings in the experimental study of Gibbins et al. (2010) on which negotiation strategies and tactics audit partners use when they resolve disputed accounting issues. Prior research shows that the precision of accounting standards has an effect on accounting outcomes in auditor-client conflicts (e.g., Ng and Tan, 2003). Our study extends the findings of this research by examining the relationship between the precision of accounting standards and the auditor's use of the contending negotiation strategy, a relationship that to our knowledge has previously not been directly tested. Brown and Johnstone (2009) study auditors' use of the concessionary negotiation strategy and find that

task-specific negotiation experience is associated with auditors' use of the concessionary negotiation strategy, but years of experience or rank is not thus associated. McCracken et al. (2011) find, however, that rank seems to have an impact on auditors' use on another negotiation strategy as audit partners plan to use more contending tactics than do audit managers (finding dependent upon the accounting context). As prior findings on the effects of the auditor's general experience on use of negotiation strategies are mixed (e.g., Brown and Johnstone, 2009; McCracken et al., 2011), we extend prior research by our finding that both general experience and task-specific experience seem to have an impact on audit partners' use of the contending negotiation strategy. Gibbins et al. (2010) study the effect of the auditor-client relationship in auditor-client negotiations. Their findings on the impact of the auditor-client relationship on the auditors' use of negotiation strategies are mixed: the quality of the relationship has an effect on auditors' use of the conceding negotiation strategy, but no such effect is found on the auditors' use of the contending negotiation strategy. We extend this study by finding that the auditor-client relationship also has an impact on audit partners' use of the contending strategy. Finally, our research design allows us not only to study which variables that are important in auditor-client negotiations but also the relative importance of each variable. We extend the findings in Gibbins et al. (2001 and 2007) on the importance of different context variables in auditor-client negotiations using regression analysis to test which variables have the largest impact in our sample negotiations.

The remainder of the paper is organized as follows. Section 2 presents the background for our study and develops our research hypotheses and questions. Section 3 presents the research design, and section 4 reports the results from the retrospective recall field study. Section 5 discusses our major findings, the limitations, and the implications of the study for practice, regulators, and future research.

II. BACKGROUND AND DEVELOPMENT OF HYPOTHESES

Prior research on negotiation strategies, tactics and styles

Over the years, there has been a growing awareness that auditors and clients *negotiate* to resolve disputed financial reporting issues (Antle and Nalebuff, 1991) and a large number of studies investigating the phenomenon has been conducted. In this section we present and discuss theory, including typologies developed in generic negotiation research, on negotiation strategies, tactics and styles. A number of audit research papers discuss for instance how negotiation strategy selection seems to be affected by different context variables. Brown and

Wright (2008), Salterio (2012) and Kulset (2013) have reviewed the entire body of auditor-client negotiation research, and we refer you to these articles for a complete presentation.

To obtain preferred negotiation goals, Pruitt and Carnevale suggest that the negotiation parties choose from five different strategies: problem solving, concession making, contending, withdrawal and inaction (Pruitt and Carnevale, 1993). The first of these strategies is referred to as an *integrative* strategy whereas the last four strategies are labeled *distributive* strategies. Concession making, withdrawal and inaction are simple strategies (i.e. they are not implemented by use of different tactics). By contrast, problem solving and contending strategies are implemented through the use of different *tactics* (i.e. different forms) which are consistent with the overall strategy. In the following paragraphs, we define the different strategies and comment briefly on their use in auditor-client negotiations. The definitions are based on Pruitt and Carnevale (1993).

Concession making involves reducing one's goals, demands or offers. In an auditor-client negotiation over accounting issues, the auditor uses the concession making strategy if he as a part of the negotiation process is willing to move away from his initially preferred accounting outcome to come to an agreement with his client. The strategy can also be used if the auditor receives new information which changes the auditor's initial beliefs about the accounting solution. In the accounting setting it can therefore be fruitful to distinguish between concessions that lead to a financial statement that better reflects the underlying economic situation of the company (the client has suggested a solution that better reflects the reality than the solution the auditor has suggested) and concessions that lead to the auditor accepting an estimate other than the best estimate (the auditor is persuaded by the client).

Inaction (doing nothing or as little as possible) and *withdrawal* (dropping out of the negotiation) are normally useless strategies in auditor-client negotiations because a solution has to be found. In the accounting setting, finding a solution does not necessarily imply agreement as the auditor will issue a qualified audit opinion if the client does not accept the accounting that the auditor requires. If the issue that the auditor and the client disagree about is significant, the auditor may withdraw from the engagement but as inaction and withdrawal are strategies that are of relatively little use in auditing, these strategies will not be discussed any further.

The *contending strategy* is defined as a strategy in which one party tries to persuade the second party to concede. Its use also implies an effort to resist persuasive efforts by the other party. The auditor may use different contending tactics such as threats, harassments, persuasive arguments and positional commitments. If the auditor uses more contentious tactics than the client does, the auditor is likely to win the negotiation. Contentious tactics used by the auditor

may in some instances prompt the client to intensify his use of contentious tactics and thus make it difficult for the auditor and the client to reach an agreement. For example, auditors can threaten the client, telling him that he will not receive a clean audit opinion unless he accepts the accounting solution that the auditor has suggested. The auditor may adopt an alternative approach; trying to persuade the client by showing accounting precedents that support the auditor's suggested solution.

Problem solving strategies consist of efforts to try to locate or adopt options that satisfy both parties' goals. Problem solving tactics are tactics such as information sharing and the trading off on negotiated issues. In the auditing setting, the auditor can, for example, share information about all precedents with his client and not only the precedents that support the solution suggested by the auditor.

The *overall negotiation strategy* will often consist of elements from several different strategies. For example, concession making and contending tactics are often coupled with problem solving tactics (Pruitt and Carnevale, 1993).

Some researchers study negotiators' *negotiation style*.³ A main distinction between a strategy and a style is that while a strategy represents planned or intentional behavior (Pruitt and Carnevale 1993), "conflict style is the way a person most commonly deals with conflict" (Pruitt and Carnevale, 1993, p. 105). Rahim (1983) classifies styles for handling interpersonal conflict along two axes: *concern for self* and *concern for others* (Rahim 1983). Negotiators who are high on both dimensions have an *integrating negotiation style*. Negotiators, who have low concern for the other negotiation party but high concern for self, typically have a *dominating (contending) negotiation style*. Low concern for self but high concern for others is labeled an obliging (conceding) style while a low score on both dimensions is labeled an *avoiding style*. Rahim (1983) also adds the *compromising negotiation style* to his typology. Pruitt and Carnevale (1993) claim that compromising is not a distinct *strategy* but a form of half-hearted integrating.

Auditors are likely to choose an overall negotiation strategy that they think will contribute to their preferred negotiation outcome.⁴ Gibbins et al. (2010) investigate Canadian auditor's likelihood of using 25 different negotiation tactics⁵ (5 of which measures use of contending tactics) and find that the auditors first of all plan to use the contending, the problem solving and the "expanding the agenda" strategy (a strategy similar to the problem solving strategy in which auditors try to bring new issues onto the negotiation table to facilitate an agreement (Gibbins et al., 2010)). Further they find that the likelihood scores of intended tactics for all the contending tactics and all the problem solving tactics are higher than the intended

likelihood scores of all the compromising tactics and the likelihood scores of all statements measuring the conceding strategy.

When auditors and clients negotiate, auditors will often have incentives to support a more conservative solution than the one the client prefers, otherwise there would be no conflict (Bame-Aldred and Kida 2007). Nevertheless, this is not equivalent to saying that the most conservative solutions are necessarily the best solutions: the auditor has a professional obligation to give his opinion on whether a financial statement is in accordance with the accounting standards, not, for instance, to ensure as large write-downs as possible. Often this means that the auditor will use the contending strategy to persuade the client to accept his solution, and as found by Gibbins et al. (2010), the contending strategy is very important in the auditing context.

We measure auditors' use of approximately the same negotiation strategies and tactics as in the Gibbins et al. (2010) study but in a sample of completed negotiations.⁶ After measuring audit partners' use of several different negotiation strategies/tactics, we focus on the partners' use of the contending strategy. The auditors' use of the other strategies/tactics will be taken into account when necessary in our empirical analyses.

Based on generic negotiation theory and supplemented by interviews with eighteen senior audit practitioners, Gibbins et al. (2001) develop a three-element process model for auditor-client negotiations over accounting issues and distinguish between the elements issue, the process itself, and the outcome. Context variables "potentially influence or are influenced by any of the three negotiation process elements" and are divided into three groups: the role of external conditions and constraints, the interpersonal auditor-client context and the capabilities of the parties, including accounting expertise (Gibbins et al., 2001, p. 537). Using survey data from audit partners, Gibbins et al. (2001) identify 29 variables that are thought to have an effect in auditor-client negotiations. The precision of the accounting standards and the audit firm's negotiation expertise are considered by the audit partners to be the most important variables in auditor-client negotiations. In Gibbins et al. (2007), survey-data from auditor-client negotiations is collected from 70 CFOs. In the survey, CFO respondents rate accounting and disclosure standards, relationship with audit partner, organization's accounting expertise, audit firm's accounting expertise and competence of audit partner to be the most important context variable related to the negotiation outcome. We build on the Gibbins et al. studies (2001 and 2007) when deciding which hypotheses we test between context variables and auditors' use of the contending negotiation strategy as well as which context variables we include as control variables in our empirical models. We then complement the findings from Gibbins et al. (2001)

to determine which context variables are the most important in auditor-client negotiations over accounting issues by testing the relationship between context variables, auditors' use of the contending negotiation strategy and the negotiated accounting outcomes. In contrast to Gibbins et al (2001 and 2007), we do not ask the respondents to rate the importance of the context variables but conclude on their importance by comparing the standardized coefficients of the variables in our empirical models.

Development of hypotheses

Building in particular on Gibbins et al. (2001 and 2007), we consider three of the variables identified in their research that are most likely to be of high importance in auditor-client negotiations and consequently to be associated with the auditor's use of the contending negotiation strategy. These variables are: (1) the precision of the accounting standard, (2) the level of general and task-specific negotiation experience of the audit partner, and (3) the quality of the auditor-client relationship. These variables are discussed in the sections that follow.

Precision of accounting standard

Previous research has studied the impact of accounting standard precision on accounting outcomes (e. g. Trompeter, 1994; Hackenbrack and Nelson, 1996; Wright and Wright, 1997; Braun, 2001; Nelson, Elliot and Tarpley, 2002; Ng and Tan 2003 and Cohen et al., 2013). No research that we are aware of studies the impact of accounting standards' precision on the auditors' use of the contending negotiation strategy. In previous research on non-auditors, powerful negotiators are shown to use more threats and punishments than less powerful negotiators (e. g. Michener et al., 1975). Further, Braun (2001) argues that liability exposure is lower (i.e., auditors experience lower litigation risk) for highly subjective issues than for less subjective accounting issues, and Neale and Bazerman (1985) show that people seem to respond to risks in negotiations by using a more contending strategy when risks are high than when risks are low. By contrast, Brown and Johnstone (2009) find in an experiment involving a low versus a high engagement risk setting that this accounts only for decisions of the less experienced auditors.

This discussion above leads to our first hypothesis:

HYPOTHESIS 1. *When negotiating disputed accounting issues, the more precisely regulated the accounting issue, the more audit partners agree that their overall negotiation strategy included contending negotiation tactics.*

The audit partner's experience

Audit theory distinguishes between experience and expertise and defines audit expertise loosely as superior judgment performance caused by the factors of knowledge and ability (Bonner and Walker, 1994). According to Bonner and Walker (1994), knowledge consists of *declarative* (knowledge of facts and definitions) and *procedural* knowledge (knowledge of the rules or steps that are necessary for the completion of a task). Experience is thought to produce knowledge as different tasks (judgments) are performed and feedback is received on these judgments (Bonner and Walker, 1994). Experience *per se* will consequently not cause superior judgment performance, and auditors can be experts in different audit tasks. In many audit tasks, auditors will have acquired the necessary procedural knowledge as audit seniors. In other tasks, experience as managers or partners is necessary to acquire procedural knowledge, as seniors do not perform these tasks.

Auditor-client negotiations are tasks that are normally performed at the partner level; consequently, it should be expected that task-specific negotiation knowledge is learned after the partnership is received. Trotman et al. (2009) compare the negotiation behavior of partners and managers and find that partners suggest higher initial write-downs, higher minimum write-downs and higher expected write-downs than managers, but Brown and Johnstone (2009), perhaps surprisingly, find that general experience measures (years of experience and rank) are not closely related to auditors' negotiation behavior (measured as the concessions that the auditor makes). When testing a task-specific measure of experience, Brown and Johnstone (2009) find that managers and partners who have experienced many (11 or more) auditor-client negotiations during the last three years use a less concessionary negotiation strategy, obtain more conservative accounting and are more confident that the obtained accounting is allowed under GAAP than participants who have experienced fewer such client-auditor interactions in recent years. In the Brown and Johnstone (2009) study, task-specific knowledge is associated with negotiation behavior, but years of experience or partner rank is not. McCracken et al. (2011) find however that general experience measures may have an effect on negotiation behavior as partners plan to use more contending tactics than audit managers (the finding depends upon the accounting context). Building on these prior studies, we expect that audit partners' use of the contending negotiation strategy will differ depending upon their task-specific experience but also that partners may need some time to get fully accustomed to their new role so that partners in their first partner years may behave differently in negotiations (chose other negotiation strategies and tactics) than partners that have worked as partners for some time. More experienced audit partners are likely to behave differently than their less

experienced partner colleagues for many reasons; they are likely to have more relevant procedural knowledge and better negotiation skills (negotiation expertise). In addition, it is likely that their negotiation experience makes them more self-confident. This higher self-confidence may influence the experienced partners to try harder to obtain the solution they initially found correct and lead to more contending behavior.

This leads to the following two hypotheses:

HYPOTHESIS 2a: When negotiating disputed accounting issues, audit partners with more general partner experience agree more than audit partners with less general partner experience that their overall negotiation strategy included contending negotiation tactics.

HYPOTHESIS 2b: When negotiating disputed accounting issues, audit partners with more task-specific negotiation experience, agree more than audit partners with less task-specific negotiation experience, that their overall negotiation strategy included contending negotiation tactics.

The quality of the auditor-client relationship

Previous accounting scandals have led to an increased focus on the concept of auditor independence, and regulators have imposed new regulations on audit firm rotation and banned certain auditor consulting activities (Bamber and Iyer, 2007). Underlying these regulations is the perception that not only financial ties but also personal relationships are detrimental to the quality of financial audits. Paradoxically, it will often be easier to perform an audit when the auditor is familiar with the client. The conflict between a necessary familiarity and related threats to auditor independence has even led critics to argue that it is not possible for auditors to perform objective audits (Bamber and Iyer, 2007).

One of the ways to characterize relationships is by the dimension, “positive –negative”. Positive relationships typically include trust, and the parties involved are concerned not only for their own but also the other party’s negotiation outcome. Negative relationships, by contrast, are characterized by distrust and negative attitudes (Pruitt and Carnevale, 1993).

Audit negotiations take place in an ongoing relationship, and research shows that prior negotiations have a significant impact on auditors’ choice of negotiation strategies as well as negotiations outcomes (Gibbins et al., 2010; Hatfield et al., 2010; Brown-Liburd and Wright, 2011). Gibbins et al. (2010) explicitly study the effect of auditor-client relationship on auditor’s

choice of negotiation strategies in an experimental setting and find a significant relationship at the ten percent level between the quality of the relationship (positive and cordial versus negative and contentious) and audit partners' use of the conceding negotiation strategy. By contrast, they do not find a relationship between the quality of the relationship and audit partners' use of the contending negotiation strategy. Syna (1984) and Zubek et al. (1992), find that there is less contentious behavior in positive relationships, and these findings indicate that an association between relationship quality and audit partners' use of the contending strategy may exist.

Given prior findings from the research presented above on the effect of positive relationships on negotiators' contending behavior, we formulate the following hypothesis:

HYPOTHESIS 3: When negotiating disputed accounting issues, the less positive audit partners perceive the auditor-client relationship, the more audit partners agree that their overall negotiation strategy included contending negotiation tactics.

III. METHODOLOGY

Data collection and respondents

Data were collected from one of the Big 4 Norwegian audit firms⁷ for 2007-2009 audit engagements.⁸ To encourage the inclusion of disagreements with large clients, audit partners were asked to identify their three largest clients (based on audit fees) with whom they had disagreed about a potentially material accounting issue (disagreements about amounts and principles, but not disclosure) and to answer questions about the negotiations related to the disagreements.⁹

Research instrument

The questionnaire builds on research instruments developed in Gibbins et al. (2001, 2007, and 2010), and it was pre-tested on a partner in the participating audit firm. The revised version of the questionnaire was then tested on four other respondents with audit experience and revised in accordance with their suggestions. Based on this pilot-testing a final version of the questionnaire was completed. To ensure correct and truthful responses, several precautions were taken. The participating partners were allowed to respond anonymously (instructions were given to put each questionnaire in a sealed envelope when finished). The questionnaire was written in English and translated into Norwegian, developed in collaboration with the audit firm and guidance was included where necessary.¹⁰ As prior research (Gibbins et al., 2007) indicates

that the word “negotiation” may be viewed pejoratively, we asked for disputed accounting issues and explained the term as “initial *disagreements* between the auditor and the client about difficult accounting issues”.

The questionnaire consists of six parts; the participants first answer questions about the disagreement they experienced. In the second part they respond to their agreement with different assertions about their use of different negotiation strategies and tactics. The respondents then responded to questions about the outcome of the negotiations and give information about the client, the audit and themselves.

Operational definitions and measurement

Strategies measured in the study

We measure auditors’ use of the contending, conceding, problem solving, and compromising strategy using the instrument in Gibbins et al. (2010) with a few minor changes in wording necessary for a field setting. The respondents rated their level of agreement with 20 statements¹¹ presented in random order, (same order used in all the questionnaires) on an eight-point scale from 0 (no agreement with statement) to 7 (very high agreement with statement). The 20 statements that were included in the questionnaire are listed in Table 1, Part A, in descending order of the average score on the statements.

(Insert Table 1 about here)

As the instrument has not been used extensively in accounting settings and as it has not been used previously in a Norwegian setting, we used principal component analysis (forcing four factors) to validate the strategy measures. According to the analyses, the contending scale is uni-dimensional and includes all the five statements identified in Table 1, Part B. The five statements are consistent with the statements used in prior research to measure the contending negotiation strategy (e.g. Gibbins et al., 2010).

We run correlational analyses between the scores on the 15 statements from the questionnaire on tactics that are not a part of the contending scale and the scores on agreement of use of the contending scale. We find that only two of these 15 statements (tactics) are significantly correlated with the auditors use of the contending strategy; “tried to find some middle-ground (S5)” ($p < 0.05$; negative correlation) and “tried to collaborate with the client to come up with a new solution acceptable to all of us (S8)” ($p = 0.01$; positive correlation). This indicates that auditors that report the highest agreement to using the contending scale, report

the lowest agreement to using one of the compromising tactics (S5). The second compromising tactic (S8) however seems to be used in combination with the contending strategy.

Outcome of auditor-client negotiations over accounting issues

The accounting outcome of the negotiation was measured in a similar fashion to Gibbins et al. (2001). The respondents were asked to “Indicate the resolution of the issue” as: (1) agreement on the client’s initial position, (2) somewhere between the suggested solutions, (3) a new solution, and (4) agreement on the auditor’s initial position. Except for alternative (4) all the other alternatives entail that the auditor changed his position, and the binary variable we use to measure negotiation outcome is “change in auditor position” (alternative 1, 2 and 3 combined) versus “no change in auditor’s position” (alternative 4), labeled SOLUTION.

Context variables included as independent variables in the analyses

The *auditor-client relationship* (RELATIONSHIP) is measured on a 5-point scale from “much better than other clients” to “much worse than other clients”. *Audit partner experience* is measured as years since inception of partnership. The measure is not expected to be linearly related to audit partners’ use of contending negotiation tactics or the accounting outcome of auditor-client negotiations as it is likely that a certain number of years of experience will be enough to obtain, for instance, the necessary negotiation expertise. The measure is therefore then transformed into two dichotomous measures: low versus high experience in which partners who have been partners for three years or more are placed in one group and partners who have been partners for less than three years are placed in the other. The split is used to construct the binary variable AUDITOREXP. A median split variable, labeled AUDITOREXP_MED, was also constructed. We also measure experience with a task-specific measure: number of negotiations experienced per year (EXPDIFFCASES), dichotomized as low (less than three negotiations experienced yearly) versus high (three or more negotiations experienced yearly) task-specific experience. *Precision of accounting standard* (ACCREGULATION) is measured as the extent to which auditors report that there is a clear solution to the accounting issue on a 5-point scale from “very low” to “very high”.

Context variables included as control variables in the analyses

A large number of context variables have been suggested and found to be of some importance in auditor-client negotiations (e.g. Gibbins et al. 2001, 2005, and 2007). Our design seeks to control for context variables that are most likely to have an impact.¹² Five control variables are

included in the main analyses: *client size* (measured as a categorical variable with 7 categories), *audit risk* (measured on a 5 point scale from very low to very high, labeled as AR), *ownership* (measured in two categories: public company and private company), *client's financial condition* (measured as whether or not the client experienced financial difficulties, labeled as PROFITABILITY) and *audit fee relative to other clients of the partner* (measured in five categories from "less than 10%" to "more than 50%, labeled as FEE). To exclude small disagreements from the sample, we asked only for disagreements that could potentially have a material impact on the financial statements and included a question in the questionnaire about the materiality of the issue. We partly control for *industry* as participants are asked to exclude banking, insurance or governmental clients. As the study is conducted in a low-litigious environment, it is not necessary to control for the potential effect of *formal sanctions* or *litigation risk*.

IV. RESEARCH FINDINGS

Descriptive statistics

The sample consists of different negotiated accounting issues in companies with differing ownership structure in different industries. Many of the clients in the sample are relatively large,¹³ 36 out of 76 companies have annual revenue larger than NOK 500 million.¹⁴ The sample consists of 65 clients (83%) that received an unmodified audit opinion, 4 clients that received an unmodified audit opinion with an emphasis of matter paragraph and 10 clients (13%) that received a modified audit opinion. Of these 10 clients, only 6 received the modified audit opinion as a consequence of the negotiation described in the questionnaire. One of these six clients received an adverse opinion. The conflicts described in the sample took place in the years 2007-2009.

The auditors who participated in the study had an average of 17.16 years (std. dev. 7.29) of audit experience, with the partners averaging 7.22 years (std. dev. 7.06) as partners. Twenty-one of the cases included in the study came from partners with only one or two years of partner experience. The partners experienced, on average, 3.56 (std. dev. 2.49) disputed accounting issues per year across their client portfolio. Eighteen of the cases came from partners who experienced two or fewer disputed accounting issues per year. Table 2 presents descriptive statistics for the dependent and independent variables. Table 3 presents additional descriptive statistics for the audit adjustments negotiated in the sample.

(Insert Table 2 and 3 here)

Auditors' use of different negotiation strategies and tactics

We see from Table 1a that seven of the statements in our questionnaire measure negotiation tactics that the Norwegian auditors at least moderately agree to have used (mean score higher than four on the eight point scale): the auditor typically agrees that he or she “used their expertise in accounting to influence the solution in their favor” (S9) (mean = 5.29), “argued with their clients to show them the merit of their position” (S4) (mean = 4.76), “was firm in pursuing their position” (S17) (mean = 4.72), “used their influence to get their position accepted by the client” (S6) (mean = 4.51), “tried to bring all their concerns into the open with the client so that the issue could be resolved in the best possible way” (S14) (mean = 5.91), “tried to investigate the issue further with the client to find a new solution acceptable to both of us” (S11) (mean = 4.10), and “tried to find some middle ground to resolve the issue with the client” (S5) (mean = 4.78). The first four of these statements measure contending tactics, the next two are problem solving tactics and the last statement measures a compromising tactic. As in the Gibbins et al. (2010) study, the contending tactic not listed above: “the auditor told the client he would issue a modified opinion unless the client changed his accounting” (S3) (mean = 2.82) has a score on the measurement scale that is considerably lower than the measurement scores of the other contending tactics. Apart from the high score that we measure on agreement of using the compromising tactic “tried to find some middle ground” (S5), our findings show the same main pattern as the Gibbins et al. (2010) study—contending and problem solving tactics get the highest scores on the measurement scales—and as such validate their findings. Our unexpected finding on the audit partners' use of the compromising tactic will be further discussed in the discussion part of the paper.

Test of hypotheses and findings of variable importance

The following multiple regression model¹⁵ was used to test hypotheses 1, 2 and 3 and to assess the importance of the different context variables:

Model 1: Negotiation strategy = $\beta_0 + \beta_1$ auditor-client relationship (RELATIONSHIP) + β_2 audit partner's experience (AUDITOREXP or EXPDIFFCASES) + β_3 accounting standard precision (ACCREGULATION) + β_4 audit risk (AR) + β_5 client size (CLIENTSIZE) + β_6 ownership (OWNERSHIP) + β_7 relative audit fee (FEE) + β_8 client's financial condition (PROFITABILITY) + e

Table 4 presents the OLS-results for model 1.

(Insert Table 4 here)

Hypothesis 1 predicts that the more precisely regulated the negotiated accounting issue, the more the auditor agrees that he used a negotiation strategy including contending negotiation tactics. We see from Table 4 that there is a significant positive relationship ($p < 0.01$) between auditors' use of the contending negotiation strategy (CONTEND) and the precision of the accounting standard for the negotiated issue (ACCREGULATION); the more precisely regulated, the more audit partners agree that contending tactics were included in the overall negotiation strategy used. The result provides support for hypothesis 1.

Hypotheses 2a and 2b predict that more experienced audit partners agree more than less experienced partners that they used an overall negotiation strategy that included contending tactics. We see from Table 4, column a and c, that the audit partner's general experience variable (AUDITOREXP) is only weakly significantly related ($p < 0.10$) to auditors' contending negotiation strategy (CONTEND) and only in model c without the control variables, whereas the task-specific experience measure (EXPDIFFCASES) is positively significant ($p < 0.05$, significance level depending upon model).¹⁶ The results support the conclusion that task-specific experience is more likely to be associated with a strategy including contending negotiation tactics than general partner experience as the number of years of partner experience is only weakly associated with the partner's use of the contending negotiation strategy. We find weak support for hypothesis 2a and support for hypothesis 2b.

Hypothesis 3 predicts that the less positive the auditor perceives the auditor-client relationship, the more the auditor agrees that he used a negotiation strategy that included contending negotiation tactics. We see from Table 4 that there is a significant negative relationship¹⁷ ($p < 0.10$, significance level depending upon model) between auditors' use of the contending negotiation strategy (CONTEND) and the auditors' perceptions of their relationship with the client (RELATIONSHIP); the more favorably auditors perceive their relationship with the client, the less audit partners agree that they included contending negotiation tactics in their overall negotiation strategy. The result provides support for hypothesis 3.

Comparing the standardized regression coefficients of the variables in the model, we see from Table 5 that the most important variable related to the auditors' use of the contending

negotiation strategy is the precision of the accounting standards followed by the quality of the auditor-client relationship and auditor experience.

(Insert Table 5 here)

The following multiple regression model is used to investigate the relative importance of different context variables on the outcome of the negotiation:

Model 2: Accounting outcome (SOLUTION) = $\beta_0 + \beta_1$ auditor-client relationship (RELATIONSHIP) + β_2 audit partner's experience (AUDITOREXP or EXPDIFF-CASES) + β_3 accounting standard precision (ACCREGULATION) + β_4 audit risk (AR) + β_5 client size (CLIENTSIZE) + β_6 ownership (OWNERSHIP) + β_7 relative audit fee (FEE) + β_8 client's financial condition (PROFITABILITY) + β_9 contending + e

Of the 79 negotiations in the sample, 42 were resolved by the auditor keeping his initial solution and 37 were resolved by the auditor changing his decision, either as a compromise¹⁸ (26 negotiations) or as agreement on the client's initial solution (11 cases).

(Insert Table 6 here)

We see from the OLS-results¹⁹ in Table 6, column c and d, that there is a significant relationship between outcome of the negotiation (the auditor wins or the client wins/there is a compromise) and the precision of the accounting standard ($p < 0.01$) and the auditor's use of the contending negotiation strategy ($p < 0.05$). There is a significant relationship between the experience of the auditor measured as years of experience as a partner ($p < 0.05$) and the negotiation outcome. Task-specific negotiation experience is weakly associated ($p < 0.10$) with the outcome of the negotiation. The positive nature of the relationship between the auditor and the client is not associated with the outcome of the negotiation. As we find in our analyses that the more favorably auditors perceive their relationship with the client, the less audit partners agree that their overall negotiation strategy included contending negotiation tactics, we discuss the findings on auditor-client relationship and accounting outcome further in the discussion section below. Comparing the standardized regression coefficients of the variables in the model, Table 6, column c and d, we find that the most important context variables explaining the

negotiation outcome in our sample is the precision of the accounting standards followed by the auditor's experience.

As a robustness test, we included the tactics-variables S5, S11 and S14 in our model (i.e. the tactics-variables with the highest score on the auditor's agreement with usage, findings partly untabulated). Main findings on the importance of the context variables are unchanged, but we find that S5-variable ("I tried to find some middle-ground") is associated with the accounting outcome (irrespective of how experience is measured), see Table 6e. We also included the tactic variable S8 in our analysis. The variable is insignificant and main findings are unchanged.

V. DISCUSSION AND CONCLUSION

Discussion, implications and conclusions

We measure audit partners' use of different negotiation strategies in a sample of 79 negotiations. Apart from the high score that we measure on the compromising tactic "tried to find some middle ground" (S5), our findings replicate the findings in Gibbins et al. (2010) on auditors' use of the different strategies. Consequently, we add external validity to these prior findings as auditors' use of different negotiation strategies and tactics seem similar in the Canadian and the Norwegian setting, and main findings do not seem to vary depending upon research approach. Nevertheless, our deviating finding related to the Norwegian auditors' use of one of the compromising tactics is an interesting finding. An explanation for the use of this compromising tactic in our sample can be that there are differences in how negotiations are conducted at small and large clients. Another explanation can be that use of negotiation tactics differ between public and non-public clients. Gibbins et al (2010) describe an average sized public company in their experimental study. As shown in Table 3, we include companies with differing sizes and different ownership structure in our sample. If auditors use the compromising tactic mainly when they audit smaller clients or when they audit non-public companies; this may explain our high score on statement S5. To test for these explanations, we look at the correlation between the S5-tactic-variable and the size of client-variable. No significant relationship between these two variables is found. However, we find a negative correlation between the ownership structure of the firm and the score on statement S5 ($p < 0.01$) with a mean score of agreement of use of S5 for the non-public companies of 3.0 and a mean score of 5.0 for the public companies. More research on negotiations in non-public companies consequently should be encouraged to help us understand more of how such negotiations may

differ from auditor-client negotiations in public companies. Another alternative explanation is that we have been able to capture the effect that auditors do not enter a negotiation with an intention to compromise but occasionally a compromise is still the outcome of some negotiations. More research should be encouraged to let us understand more in general about auditors' use of different negotiation strategies/tactics.

Results for hypothesis 1 show that there is a positive relationship between the precision of accounting standards²⁰ and the auditor's use of the contending negotiation strategy; the more precise accounting standards, the more auditors agree that their overall negotiation strategy included contending negotiation tactics. This result extends prior findings in for instance Ng and Tan (2003) by showing that one of the reasons prior research has found that the precision of accounting standards is related to accounting outcomes can be that the precision of accounting standards has an impact on auditors' choice of negotiation strategy. Consequently, and as emphasized by Ng and Tan (2003), accounting regulation seems to function as bargaining ammunition on behalf of the auditor, and auditors seem to possess more authority when accounting issues are precisely regulated.

Our approach to the study of auditor experience in a negotiation context is to first explore the relationship between a general measure of experience and audit partners' use of the contending negotiation strategy. We find weak evidence that auditors who have recently become partners (less than three years of partner experience) agree less to have included contending tactics in their overall negotiation strategy ($p < 0.10$) than do auditors with more partner experience, thus indicating that a new partner needs a few years of experience to become fully accustomed to his new role. This finding extends the findings in McCracken et al. (2011) who find that audit partners plan to use more contending tactics than audit managers. Brown and Johnstone (2009) find that auditors with more task-specific experience use a less concessionary negotiation strategy than auditors with less task-specific experience. They do however not test whether audit partners' extent of task-specific negotiation experience has an effect on auditors' use of the contending negotiation strategy. We find that a task-specific experience measure is also related to auditors' use of the contending negotiation strategy in that partners with more task-specific negotiation experience agree more to have included contending negotiation tactics than partners with less such experience ($p < 0.01$). Our finding consequently extends the findings of Brown and Johnstone (2009) from effect on the use of the concessionary strategy to also being related to the use of the contending strategy. Further, as in the Brown and Johnstone (2009) study, we find that task-specific experience is more important than general experience. Because accounting regulation often requires the use of fair value in the financial

statements, accounting has in recent years become increasingly more subjective, and as a consequence, it is likely that the profession has seen a shift in power from the auditor to the client. More competent auditors can be a way *to mitigate* this weakened authority of the auditor. (In the same period, audit scandals and regulatory development are likely to have enlarged the auditor's power base). As our study indicates that newly appointed partners may behave differently than more experienced partners, it may be necessary to have mechanisms in place to safeguard the quality of negotiation decisions made by new partners.

Results for hypothesis 3 show that auditors in positive client relationships agree less than auditors in more negative client relationships that their overall negotiation strategy included contending negotiation tactics. According to the respondents in the studies of Gibbins et al. (2001, 2007), the quality of the auditor-client relationship is one of the most important context variables in auditor-client negotiations over accounting issues. In an experimental study, however, Gibbins et al. (2010) did not find that the relationship quality had a significant impact on auditors' use of the contending negotiation strategy.²¹ Extending prior generic findings (see Pruitt and Carnevale, 1993) on the impact of relationship quality on negotiators' use of the contending strategy, our study find that this relationship seems to exist, and it consequently indicates that auditors may need to be more aware of how auditor-client negotiations over accounting issues are colored by the extent to which they like and trust the client. This association between the quality of the auditor-client relationship and the auditor's choice of negotiation strategy is not necessarily negative, for a high-quality relationship typically will occur when clients take their accounting seriously; but because the quality of the auditor-client relationship does not always correlate positively with risks, auditors ought at least to be aware of how the perceived relationship quality may have an impact on their behavior toward the client. Further, outsiders (regulators) may view a negotiation strategy that changes based on the nature of the client relationship a sign of reduced auditor independence. On the other hand, we find that the relationship variable is not significantly related to the accounting outcomes of the negotiations. This finding indicates that even though the auditors' choice of negotiation strategy seems to be affected by whether they like a client or not, the auditors do not seem to allow the "most-liked" clients to have their will more often than other clients.

We also complement the findings in Gibbins (2001) by our finding that the most important variable in auditor-client negotiations related to the auditors' use of the contending strategy is the variable measuring the degree of precision in accounting standards followed by the quality of the relationship between the auditor and the auditors' negotiation experience. We also find that the most important variables in relation to the accounting outcome of the audit is

the precision of the relevant accounting standard and the negotiation experience the auditor has (general partner experience and task-specific experience). Task-specific experience is more significant than general experience. We also find that the contending negotiation strategy is related to the accounting outcome of the negotiation (the more auditors agree to have used this strategy, the more likely it is that an accounting outcome equal to the outcome initially suggested by the auditor is the result of the negotiation).

Limitations

This study is designed to be as appropriate as possible for the study of the research topic. Nevertheless, some of the choices related to the design give rise to the study's limitations as presented below.

First, the entire population of auditor-client negotiations from the relevant audit years is an unknown population and because no information about this population is compiled in the audit firm, it is also impossible to "construct". We also asked specifically for negotiations with the partners' larger clients. Consequently, we cannot be assured and did not try to obtain, a sample that is representative of the entire population of auditor-client negotiations over disputed accounting issues. Sample statistics (see Table 3) show, however, that the negotiation sample consists of many different types of negotiations with clients from many different industries, with different size and ownership structures and as such to a certain extent can be said to represent the population.

Second, we did not ask the partners in our study whether they had partner experience with another audit firm. To investigate whether findings related to experience can be fully or partially explained by partners having prior partner experience within other audit firms, we compare the total audit experience reported in the group with little partner experience with the total audit experience reported in the group with more partner experience. We find that the respondents in both groups on average have approximately the same mean years of audit experience before receiving partnerships at the firm (mean = 9.48; partners in the less experienced group versus mean = 9.98; partners in the most experienced group). One of the partners in the group with less partner experience had 19 years of audit experience before receiving the partnership whereas the others have from seven to eleven years of prior audit experience. To rule out the possibility that the response from this partner drives the results of the analyses, we reran the analyses 4c and 6c with this partner excluded. The exclusion had no effect on our findings (untabulated). The findings from these supplementary analyses

consequently indicate that findings related to experience are not related to prior partner experience with other audit firms.

Third, as all data is collected after the negotiations took place, the auditors' ex-post judgments may be affected by inaccurate recollections of the events and facts. To the extent that such inaccurate recollections occur, we surmise that this is most likely when auditors answer questions about sensitive issues. In this study, information about the accounting outcome may constitute a sensitive issue if the auditor has been persuaded to concede more than he thinks is "correct". In such cases, the auditor has two "choices": he can either choose not to report anything about this case or he may report "a solution identical to the one he initially considered correct" instead of reporting that the solution was a compromise. If the auditor chooses the latter way, this is likely to work against finding significant relationships between the variables in the study and the accounting outcomes of the negotiations.

Finally, one of our motivations for undertaking this research project was to understand more about what auditors really do when they negotiate as opposed to what they say that they will do in an experimentally-based project. We realize in hindsight, however, that some of the statements that we used in our study to measure auditors' use of the problem solving negotiation strategy do not necessarily tell us much about different problem solving tactics as they include the words "new solution". Consequently, the statements focus on the solution the auditor wants to obtain. To better understand what auditors really do when they negotiate, more research should be encouraged that focuses on which problem solving tactics auditors really use (for instance, with a focus on information exchange) and the impact of these tactics on accounting solutions. As auditors' choices of negotiation strategies are measured after the negotiation occurred, there is also a question whether the statements measuring the conceding and the compromising strategies really measure the auditors' use of these strategies or whether they measure the auditors' "motivational orientation" during the conflict, i.e. a variable that corresponds to Kadous et al.'s (2003) variable "directional goal commitment". This difference does not seem important to our project as we focus on auditors' use of the contending strategy, and is, perhaps first of all, a question of terminology. Nevertheless, a suggestion for future research is to clarify the distinction between intentions/motivational orientation and behavior and to focus on measuring what auditors *really do* when they negotiate.

Answers to the issues raised in the limitation section of the paper are left to future research studies. The current study contributes to our understanding of what happens when the auditor and the audit client resolve disputed accounting issues. Because of this study, we have a better understanding of in particular the contending tactics that auditors use to obtain their

preferable negotiation outcome. It is also clear from this study that precise accounting standards play an important role in allowing the auditor to win auditor-client negotiations over disputed accounting issues.

¹ Norwegian listed companies were required to implement IFRS in 2005 at latest. Other companies are allowed to report in accordance with IFRS or may otherwise follow the principles laid out in the Norwegian Accounting Act of 1998. The Norwegian Accounting Act is income statement oriented (Berner et al., 2016) based on the basic principle that “annual accounts shall be prepared in accordance with good accounting practice” (Johnsen, 1993, p. 617). Norway is characterized as a low-litigation risk environment, (Hope and Langli, 2010) and all Norwegian audits must be conducted in accordance with International Standards on Auditing (Eilifsen and Knivsfloa, 2016). The Norwegian accounting and auditing environment is described more in depth in Eilifsen and Knivsfloa (2013).

² As interviews with Norwegian auditors suggested that the term “negotiation” in the context of an audit has a negative connotation, we did not use the word “negotiation” in our questionnaire but used the term “disputed accounting issue” instead. “Disputed” were defined in the questionnaire as “an accounting issue with an initial difference of opinion between the auditor and the client about the appropriate accounting.”

³ Most auditor-client negotiation research focus on auditors’ use of different negotiation strategies/tactics. Goodwin (2002) however, study auditor negotiation style. Approximately the same statements are used to measure auditor negotiation strategy (Gibbins et al., 2010) and auditor negotiation styles (Goodwin, 2002).

⁴ It should be noted that the accounting outcome is not the only important outcome resulting from a negotiation; other outcomes can also be important for the negotiation parties such as how easily the resolution was found and what impact the negotiation has on the relationship between the auditor and the client. In this paper, no other negotiation outcomes than the accounting outcome are investigated. It should also be noted that the solution that the auditor suggests will not always be the solution that is the closest to the «correct» solution, because the client may have a better understanding of the issue than the auditor has.

⁵ The statements that we study in our project is included in Table 1a.

⁶ Hollidale et al. (2011) study auditors’ use of planned negotiation tactics in a survey-based project. They suggest the use of a number of contending tactics that are not included in our project but that may be of interest for future research.

⁷ Differences in auditor negotiation behavior based on audit firm affiliation are thought not to exist, but as audit firm cultures may differ and may have an impact on negotiation behavior, including data from only one firm controls for possible differences.

⁸ The questionnaires were distributed and collected by a contact person in the audit firm and returned to the researchers.

⁹ Audit partners were asked to identify their three largest clients with whom they had disagreed to encourage the inclusion of disagreements with large clients in the sample, 59 audit questionnaires were returned related to audits for 2007 and 2008. In a second round of data collection, an additional 20 audit questionnaires were returned related to the audits for 2009. Out of 130 contacted partners, 42 partners responded in one or both rounds of data collection. One of these 42 partners responded with an empty questionnaire. 41 partners responded with one to five questionnaires. Two of the questionnaires could not be used in the final analysis, leaving a total of 39 partners responding with 79 cases. 19 partners responded with one questionnaire, 20 partners responded with more than one questionnaire, 3 of these responded with one questionnaire in the first collection round and one in the second round. In the second round of data collection some questions collected for use other than this paper were omitted from the questionnaire and categories imposed on the answer to the question on number of negotiations experienced were removed.

¹⁰ Even though the respondents are fluent in English, they were more likely to respond quickly and precisely if they replied in Norwegian (based on feed-back from the audit firm in the first round of pilot-testing). Consequently, all respondents received the questionnaire in Norwegian (including the final pilot testing).

¹¹ Only 5 of these statements measure the auditor’s use of the contending negotiation strategy. The remaining 15 statements measure auditors’ use of the conceding, problem solving and compromising negotiation strategy. These statements were first of all included in the questionnaire for use in another research project, but the main descriptive findings are included in this paper as part of its purpose.

¹² We also run the analyses with a variable measuring the extent to which the client had an aggressive accounting strategy. This variable was not significantly related to the auditor’s use of the contending negotiation strategy or the accounting outcome of the negotiation.

¹³ As the 500th largest Norwegian company in 2008 had an annual revenue of NOK 643 million (Dagens Næringsliv, June 3rd, 2009), at least 36 of the companies in the sample were on the Norwegian “Top-500-List”.

¹⁴ Three of the respondents forgot to provide information about annual revenue. These cases are not included in the analyses when company size is included as one of the variables.

¹⁵ Our main research model is a subset of the Gibbins' 2001-model.

¹⁶ The median split variable, AUDITOREXP MED, was not found significantly related to the auditor's use of the contending negotiation strategy.

¹⁷ The relationship is significant at $p < 0.10$ with general experience and control variables included in the model, significant at $p < 0.05$ with control variables and the task-specific partner experience variable in the model, and significant at $p < 0.01$ with the general experience variable or the task specific partner experience variable included and the control variables excluded from the model.

¹⁸ Compromise solutions include both solutions labeled by the respondents as compromises and solutions labeled as new solutions.

¹⁹ We also used logistic regression: untabulated main results are the same, apart from that in model 6c, the auditor experience variable is marginally more significant than the contending variable.

²⁰ Because the precision of accounting standard is measured as the respondent's subjective understanding of the accounting regulation, the respondent's type of partnership (the participating audit firm has a system with two levels of partnership) was included in the analysis to control for a possible competence effect. No such effect was found.

²¹ Sanchez et al. (2007) and Tan and Trotman (2010) find that auditors' choice of negotiation strategy seems to have an impact on the likelihood that the client will continue the relationship with the auditor.

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Table 1a - Auditor's use of different negotiation strategies/tactics

	N	Min	Max	Mean	Std. deviation	Strategy
I tried to bring all my concerns about this issue into the open with the client so that the issue could be resolved in the best possible way (S14)	79	2	7	5.91	1.05	PS
I used my expertise in accounting to influence the resolution in my favor. (S9)	79	0	7	5.29	1.71	CONT
I tried to find some middle ground to resolve this issue with the client. (S5)	79	0	7	4.78	1.93	COMPR
I argued with the client to show them the merits of my position. (S4)	79	0	7	4.76	2.03	CONT
I was firm in pursuing my position. (S17)	79	0	7	4.72	2.26	CONT
I used my influence to get my position accepted by the client. (S6)	79	0	7	4.51	2.22	CONT
I tried to investigate the issue further with the client to find a new solution acceptable to both of us. (S11)	79	0	7	4.10	2.42	PS
I tried to satisfy the needs of the client. (S12)	78	0	7	3.46	1.98	CONC
I tried to satisfy the expectations of the client. (S1)	79	0	6	3.37	1.88	CONC
I collaborated with the client to come up with a new solution acceptable to all of us. (S8)	79	0	7	3.32	2.37	PS
I tried to work with the client to find new solutions to this issue that satisfied both of our expectations. (S10)	79	0	7	3.13	2.24	PS
I tried to integrate my ideas about how to resolve this issue with the client to come up with a new solution jointly. (S19)	79	0	7	3.01	2.17	PS
To obtain a resolution in my favor I told the client that I would modify my audit opinion he changed his accounting. (S3)	79	0	7	2.82	2.73	CONT
I attempted to accommodate the wishes of the client. (S7)	79	0	6	2.43	1.76	CONC
I used "give and take" so that a compromise could be made. (S2)	79	0	7	1.78	1.59	COMPR
I made concessions from my position to the client. (S13)	78	0	5	1.73	1.57	CONC
I proposed some middle ground on this issue at some point during the process of resolving the disagreement with the client. (S15)	79	0	6	1.54	1.75	COMPR
I negotiated with the client so that a compromise could be made. (S16)	79	0	7	1.44	1.69	COMPR
I gave in to the wishes of the client. (S18)	78	0	7	1.23	1.46	CONC
I played down the differences with the client to reach a compromise. (S20)	78	0	5	0.81	1.06	COMPR

CONC = conceding
 COMP = compromising
 CONT = contending
 PS = problem solving

Table 1b – Statements composing the contending scale

Contending strategy	Mean	Std. deviation
To obtain a resolution in my favor I told the client that I would modify my audit opinion unless he changed his accounting.	2.82	2.73
I argued with the client to show them the merits of my position.	4.76	2.03
I used my influence to get my position accepted by the client.	4.51	2.22
I used my expertise in accounting to influence the resolution in my favor.	5.29	1.71
<u>I was firm in pursuing my position.</u>	<u>4.72</u>	<u>2.26</u>
<u>Contending scale</u>	<u>4.49</u>	<u>1.57</u>

Table 2 - Descriptive statistics - dependent and independent variables

Variables	N	Min	Max	Mean	Std. dev.
RELATIONSHIP	79	1	4	3.22	0.71
AUDITOREXP	79	0	1	0.73	0.45
EXPDIFFCASES	79	0	1	0.77	0.42
ACCREGULATION	79	1	5	3.23	1.00
AR	79	1	5	3.35	0.75
CLIENT SIZE	76	1	7	NA	NA
OWNERSHIP	78	0	1	0.10	0.30
FEE	79	1	4	1.43	0.67
PROFITABILITY	78	0	1	0.65	0.48

Notes:

RELATIONSHIP	= auditor-client relationship; scale from 1 to 5
AUDITOREXP	= 0 if the partner has two years of partner experience or less, 1 otherwise
EXPDIFFCASES	= 0 if the partner normally experiences 2 or fewer disputed accounting issues, 1 otherwise
ACCREGULATION	= precision of relevant accounting standard; scale from 1 to 5
AR	= audit risk; scale from 1 to 5
CLIENT SIZE	= clients' income; 7 ordinal categories
OWNERSHIP	= 0 if client is a non-public company, 1 otherwise
FEE	= audit fee relative to other clients of the partner measured; scale from 1 to 5 (from "less than 10%" to "more than 50%")
PROFITABILITY	= 0 if client did not experience financial difficulties, 1 otherwise
CONTEND	= score on use of contending negotiation strategy; scale from 0 to 7

Table 3: Sample descriptive statistics

Type of issues in sample

Investments	15
Goodwill and immaterial assets	14
Stock and work in progress	11
Debtors	9
Fixed assets	7
Accounting of taxation issues	5
Group matters	3
Leasing	3
Contingencies	3
Going concern	3
Related party transactions	2
Disclosure/subsequent events	1
Liabilities	2
Compliance with Company Act	1
	<hr/>
	79

Descriptive statistics of audit clients in sample

Ownership

Public	8
Non-public company with public parent	8
Non public	61
Not specified	2
	<hr/>
	79

Industry classification

Utilities	3
Shipping	4
Oil and gas	4
Manufacturing	17
Merchandising	17
Telecom. media and technology	8
Construction	4
Investments / finance	6
Real estate and business activities	8
Others (fishing, service (2), transport, logistics and not specified (3))	8
	<hr/>
	79

Company annual revenue¹

Less than 10 million NOK	10
Between 10 and 50 million NOK	13
Between 50 and 100 million NOK	10
Between 100 and 500 million NOK	7
Between 500 and 1000 million NOK	11
Between 1000 and 3000 million NOK	15
Larger than 3000 million NOK	10
Not specified	3
<hr/>	
	79

¹ These categories are used to measure company size in the following analyses. 1USD=8.14 NOK and 1EURO=9.53 NOK, DnB, May 28, 2018.

Table 4 - OLS-regression results model 1: dependent variable CONTEND

	4a	4b	4c	4d
Constant	3.082 ** (1.395)	3.465 *** (1.222)	3.349 *** (0.958)	3.840 *** (0.846)
RELATIONSHIP	-0.424 * (0.240)	-0.590 ** (0.242)	-0.487 ** (0.222)	-0.654 *** (0.216)
AUDITOREXP	0.551 (0.407)		0.640 * (0.356)	
EXPDIFFCASES		0.912 ** (0.417)		0.996 *** (0.368)
ACCREGULATION	0.693 *** (0.169)	0.634 *** (0.166)	0.693 *** (0.156)	0.615 *** (0.153)
AR	0.031 (0.231)	0.020 (0.224)		
CLIENTSIZE	0.071 (0.096)	0.040 (0.095)		
OWNERSHIP	-0.369 (0.607)	-0.222 (0.588)		
FEE	-0.318 (0.292)	-0.201 (0.292)		
PROFITABILITY	0.356 (0.359)	0.381 (0.351)		
Observations	75	75	79	79
Adjusted R ²	0.211	0.244	0.242	0.280

Notes:

ACCREGULATION = precision of relevant accounting standard; scale from 1 to 5
CLIENTACCEXP = client's technical accounting knowledge; scale from 1 to 5
AR = audit risk; relative scale from 1 to 5 (compared to other clients)
CLIENTSIZE = clients' income; 7 ordinal categories
RELATIONSHIP = auditor-client relationship; relative scale from 1 to 5 (compared to other clients)
OWNERSHIP = 0 if client is a non-public company, 1 otherwise
AUDITOREXP = 0 if the partner has two years of partner experience or less. 1 otherwise
EXPDIFFCASES = 0 if the partner normally experiences 2 or fewer disputed accounting issues, 1 otherwise
FEE = audit fee relative to other clients of the partner measured; scale from 1 to 5 (from "less than 10%" to "more than 50%")
PROFITABILITY = 0 if client did not experience financial difficulties, 1 otherwise

* Significance level 10%, ** significance level 5%, *** significance level 1% (two-sided values). Values in the table are unstandardized coefficients with standard errors in parentheses.

Table 5 - OLS-regression results model 1: dependent variable CONTEND (standardized coefficients)

	5a	5b	5c	5d
RELATIONSHIP	-0.191 *	-0.266 **	-0.220 **	-0.295 ***
AUDITOREXP	0.156		0.181 *	
EXPDIFFCASES		0.245 **		0.267 ***
ACCREGULATION	0.440 ***	0.403 ***	0.440 ***	0.390 ***
AR	0.015	0.010		
CLIENTSIZE	0.092	0.052		
OWNERSHIP	-0.072	-0.043		
FEE	-0.136	-0.086		
PROFITABILITY	0.108	0.116		
Observations	75	75	79	79
Adjusted R ²	0.211	0.244	0.242	0.280

Notes:

ACCREGULATION	= precision of relevant accounting standard; scale from 1 to 5
CLIENTACCEXP	= client's technical accounting knowledge; scale from 1 to 5
AR	= audit risk; relative scale from 1 to 5 (compared to other clients)
CLIENTSIZE	= clients' income; 7 ordinal categories
RELATIONSHIP	= auditor-client relationship; relative scale from 1 to 5 (compared to other clients)
OWNERSHIP	= 0 if client is a non-public company, 1 otherwise
AUDITOREXP	= 0 if the partner has two years of partner experience or less. 1 otherwise
EXPDIFFCASES	= 0 if the partner normally experiences 2 or fewer disputed accounting issues, 1 otherwise
FEE	= audit fee relative to other clients of the partner measured; scale from 1 to 5 (from "less than 10%" to "more than 50%")
PROFITABILITY	= 0 if client did not experience financial difficulties, 1 otherwise

* Significance level 10%, ** significance level 5%, *** significance level 1% (two-sided values). Values in the table are standardized coefficients.

Table 6 - OLS-regression results model 2: dependent variable SOLUTION

	6a	6b	6c	6d	6e
Constant	-0.708 (0.433)	-0.460 (0.397)			
RELATIONSHIP	-0.028 (0.074)	-0.075 (0.077)			
AUDITOREXP	0.212 * (0.124)		0.234 **		
EXPDIFFCASES		0.217 (0.132)		0.169 *	0.176 *
ACCREGULATION	0.203 *** (0.057)	0.189 *** (0.056)	0.408 ***	0.363 ***	0.326 ***
AR	0.105 (0.069)	0.096 (0.069)	0.150	0.129	0.148
CLIENT SIZE	-0.024 (0.029)	-0.032 (0.029)			
OWNERSHIP	0.197 (0.183)	0.250 (0.180)	0.086	0.114	0.030
FEE	-0.040 (0.088)	-0.033 (0.090)			
PROFITABILITY	0.024 (0.108)	0.035 (0.109)			
CONTEND	0.064 * (0.037)	0.058 (0.037)	0.221 **	0.240 **	0.189 *
S5					-0.224 **
Observations	75	75	78	78	78
Adjusted R ²	0.303	0.300	0.327	0.302	0.335

Notes:

ACCREGULATION	= precision of relevant accounting standard; scale from 1 to 5
CLIENTACCEXP	= client's technical accounting knowledge; scale from 1 to 5
AR	= audit risk; relative scale from 1 to 5 (compared to other clients)
CLIENTSIZE	= clients' income; 7 ordinal categories
RELATIONSHIP	= auditor-client relationship; relative scale from 1 to 5 (compared to other clients)
OWNERSHIP	= 0 if client is a non-public company, 1 otherwise
AUDITOREXP	= 0 if the partner has two years of partner experience or less. 1 otherwise
EXPDIFFCASES	= 0 if the partner normally experiences 2 or fewer disputed accounting issues, 1 otherwise
FEE	= audit fee relative to other clients of the partner measured; scale from 1 to 5 (from "less than 10%" to "more than 50%")
PROFITABILITY	= 0 if client did not experience financial difficulties, 1 otherwise
CONTEND	= score on use of contending negotiation strategy; scale from 0 to 7
S5	= score on use of tactic 5 (try to find some middle-ground)
SOLUTION	= 0 if the solution is equal to the solution the client initially found correct or if the solution is a compromise or a new solution, 1 if the solution is equal to the solution the auditor initially found correct

* Significance level 10%, ** significance level 5%, *** significance level 1% (two-sided values). Values in columns 6a and 6b are unstandardized coefficients with standard errors in parentheses. Values in the columns 6c, 6d and 6e are standardized coefficients.