

**Auditor Orientation, Strategies, and Tactics in Audit
Negotiations**

Presented By

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Statement of Sources

To the best of my knowledge and belief, the work presented in this thesis is original except as acknowledged in the text.

All sources used in the study have been cited and no attempt has been made to project the contribution of other researchers as my own. The thesis complies with the stipulations set out for the Degree of Master of Commerce (Honours) by Bond University.

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THESIS ABSTRACT

This study's primary objectives are to establish the dimensions, strategies, and tactics used by auditors in the negotiation of sensitive disclosure issues with clients. These issues are typically addressed at the end of the audit and are the primary concern of the audit partner and senior manager. This study uses the tactics established in the negotiation research to test if auditors use the same groups of tactics, and whether these tactics are related by some underlying dimensions, and their relevant strategies.

Multidimensional scaling found that there are four dimensions to the tactics that auditors use. During negotiations with their clients, auditors employ tactics representing the underlying dimensions which can be interpreted as "Concern for Self", "Concern for Client", "Concern for Others", and "Concern for Accounting Principles". Results of cluster analysis established four primary classifications to the 38 auditor tactics. These are "Facilitating", "Contextual", "Forcing/asserting", and "Appeal to authority". Within these four classifications, twelve sub-categories were observed. These findings reinforce the complexities inherent in the resolution of an audit conflict, and suggest that auditors group together certain tactics for use as called for in the circumstances with which they are dealing.

This research contributes to theory within the fields of auditing and general negotiation because it has established that the two-dimensional model of concern that has formed

the basis of much behavioural research is insufficient to describe an auditor's responsibilities. There are four dimensions of concern. While some researchers have proposed a three-dimensional model of negotiation for auditors, the fourth dimension identified in this study is a contribution. This research expands current knowledge fundamental to the audit discipline by establishing the negotiation tactics used by auditors and their underlying multidimensionality, and thus has extended the knowledge of audit conflict management beyond that of strategy-level. Accordingly, this research is beneficial to practicing auditors and for the education of auditors.

1 Problem Identification

1.1 AUDIT FINALISATION – PROBLEM RECONCILIATION

Audit quality is the effectiveness with which the audit detects and reports material misstatements in financial statements (Arens et al. 2007). Barton (2005) asserts that the demand for an auditor's services depends upon audit quality and the credibility of the financial reports. An auditor's integrity and objectivity is crucial to their reputation, and that of the auditing profession. Auditor-reputation is likely to be reduced if an auditor submits to a client's questionable interpretation or manipulation of accounting practices. Independence is a fundamental characteristic of the principles of integrity and objectivity (Arens et al. 2007), and is both a statutory and professional requirement. An auditor's competence is threatened if their unmodified opinion attests to a financial report that is not prepared according to professional standards (Goldman and Barlev 1974).

An independent, professional auditor's opinion lends credibility to the financial statements of their clients. However, client management and the auditor sometimes disagree on whether, or how, certain financial transactions or issues are reported in those financial statements. This gives rise to the need for negotiation between the parties. The need for negotiation emerges when divergent outcome preferences are present between the parties (Kleinman and Palmon 2000). The key objective of

negotiation is to arrive at mutually acceptable options (Carnevale and Pruitt 1992), making joint decisions that do not adversely affect the wellbeing of the parties involved (Murnighan and Bazerman 1990).

The establishment of greater controls over the quality of financial reporting through the requirements of GAAP, accounting standards, and corporate governance legislation, as well as a general awareness of public scrutiny, has meant that auditors face a higher degree of accountability for their clients' financial reports. Auditors are considered to be one of the main monitors of senior decision makers in large corporations (Marnet 2004), and the "public's watchdog" in the financial reporting process (Levitt 1998). Goldman and Barlev (1974) identify three groups to whom the auditor's report is of interest: the firm's management, the firm's shareholders, and outsiders (third parties) including potential investors, creditors, and suppliers. Devine (1963) suggests that third parties are more likely to suffer if the auditor erroneously accepts a client's representation. Yet pressure on companies to meet analysts' expectations and earnings guidance figures has nurtured an environment of "accounting gimmicks" which has caused the integrity of the financial reporting system to be questioned (Levitt 1998). Because of this conflict between audit objectives and corporate motivation, negotiation between auditors and their clients has existed since the requirement to have audited accounts.

1.2 NEGOTIATION METHODS

Behavioural research in accounting has made considerable contributions to our understanding of audit practice and the auditor processes (for example, Kent et al. (2006); Goodwin (2002); Bedard (1989)). While this field of research has matured, the research on auditor-client negotiation is in its infancy.

The nature of a successful negotiated outcome is described differently by various researchers. Research in psychology (McLaughlin et al. 1991) proposes a contingency approach to negotiation. This literature distinguishes between negotiation strategies and negotiation tactics. A negotiation strategy is a plan of action for resolving a dispute (Hoobler (2002); Spector 1997; Thompson 1990). A negotiation tactic is a technique for achieving strategy objectives. Both negotiation strategies and negotiation tactics are important to an auditor in coming to the desired outcome with the client.

For most audit negotiations with management, the strategic objective is an agreement regarding the amount of adjustments in the financial statements and, hence, averting a modified audit report (Antle and Nalebuff 1991; Gibbins et al. 2001; Beattie et al. 2004; Trotman et al. 2005). Other minor objectives include agreement about sharing the costs of an extended audit (Antle and Nalebuff 1991; Zhang 1999), and the future of the relationship between the auditor and client (Antle and Nalebuff 1991; Gibbins et al. 2001). While Australian legislation provides some level of protection from dismissal of the auditor over any disagreement over the accounts, auditors still need to maintain long-term cordial relations with the client. Clients in disaffected relationships

with auditors are likely to put the audit out to tender. Beattie and Fearnley (1998) found that 17% of firms that changed auditors cited poor working relationships with audit partner/staff as an important reason for the switch. Strategies for achieving a harmonious relationship with the client are important to the auditor, and to the negotiation process in which they engage.

Brown and Johnstone (2005) classified negotiation strategies as contending, integrative (or problem-solving), and concessionary, which are the three strategies that have attracted the most attention in general negotiation (Carnevale and Pruitt 1992). However, when describing the process and outcomes of an audit negotiation some researchers (for example, Gibbins, McCracken and Salterio 2005a) separate ease of agreement and future relationships into a separate aspect of the negotiation, that they term “consequences”. This suggests that separate strategies may be employed for each outcome.

While audit research on negotiation has mirrored the general research on negotiation strategy, there has been little research on the tactics used by researchers. Hatfield Agoglia and Sanchez (2005) focused on client characteristics and their effect on the use of the general category of contentious tactics (tactics aimed at pushing the other party in the direction of one’s wishes). They did not specify the tactics that fit into this category and they are also silent on other tactics used by auditors. McLaughlin, Carnevale and Lim (1991) identify the tactics that are used in general negotiation by professional mediators. The tactics may be used to identify the orientations/dimensions underlying auditor-client negotiations. A secondary

objective is to establish where the tactics used in general negotiation/mediation are representative of the tactics used by an auditor.

1.3 ADDRESSING THE RESEARCH QUESTION

The tactics selected were pilot tested against seven experienced audit partners. This process resulted in a general agreement on those tactics an auditor would never use (they were eliminated from the study). In addition, the pilot process identified a number of audit context specific tactics that partners considered would be used in the negotiation process. The pilot process resulted in a total of 38 tactics for testing and analysis.

Audit partners and senior managers were presented with these 38 negotiation tactics and asked to perform a sorting task similar to those used in psychological research. The responses were analysed using multidimensional scaling and cluster analysis.

1.4 CONTRIBUTION OF THE RESEARCH

The research described in this thesis makes a contribution to knowledge in four ways. It has expanded the knowledge in the auditing field, the general negotiation field, and has provided a contribution to education, and to practicing auditors.

1.4.1 CONTRIBUTION TO THEORY

Psychological and accounting research tends to focus on two dimensions to a person's negotiation or conflict-handling style: a concern for one's self and a concern for others. This thesis extends audit negotiation theory because it shows that both a two-

and three-dimensional model are insufficient to describe auditors' motivations/orientations in a negotiation process. Auditors have a responsibility to various parties apart from their client-managers. They have an overriding responsibility to investors, creditors, governments, general public, as well as to employees. The economic well-being of parties who are not a part of the negotiation are affected by the product of the resolved audit negotiation - the financial statements. Auditors are unable to ignore the financial and other consequences to these parties if they erroneously attest to the truth and fairness of the financial reports.

The third dimension/orientation, "concern for others" was expected because of the auditors' legal responsibility to third parties. The fourth dimension, a concern for accounting principles (principles in general) is a logical dimension/orientation for auditors (and negotiators in general). An attempt by a client to use an accounting treatment that is not in accord with accounting principles is a focus for the auditor, as accounting standards have the force of law behind them. For example, if a client records a liability as revenue, then the auditors will be motivated to have it corrected even if it is a low dollar value. This is the first time this dimension has been identified.

1.4.2 CONTRIBUTION TO RESEARCH

This research has contributed to the knowledge in the auditing discipline by establishing the negotiation tactics used by auditors and the underlying structure to the tactics. The research reveals the multidimensional nature of those tactics, and has categorised the tactics auditors employ in negotiating an auditor-client dispute. In

doing so, it has extended the current knowledge beyond that of conflict management styles and strategy-level research that has been carried out to date in auditing.

Additionally, this research expands current general negotiation knowledge to include the specialised field of auditing and auditors' cognitive representations of the tactics they use in negotiation with their clients in the resolution of conflict.

1.4.3 CONTRIBUTION TO PRACTICE

This research is of benefit to practicing auditors because it has identified the tactics, their dimensions, and groupings that are used by auditors to resolve an auditor-client conflict. Understanding the dimensionality of the audit negotiation process enables the development of more effective partner training through the matching of tactics with strategies. This knowledge can be applied in accordance with the auditor's intended strategy for resolving the dispute.

1.4.4 CONTRIBUTION TO EDUCATION

A contribution to education has been established in that practical classes can be devised concerning the most basic techniques that auditors use to resolve conflict surrounding reporting issues. This research provides a resource that educators can use in explaining to students how audit partners and managers approach negotiation with their clients, thus enhancing their understanding of the complex nature of the audit process. It reinforces the auditors' obligations to the investing public over and above their relationship with the client-manager.

1.5 ORGANISATION OF THE THESIS

Chapter Two draws on the research literature in both psychology and auditing. A three-dimensional model of auditor orientations is developed in contrast to the Dual Concern model that is prevalent in the psychology literature. A set of negotiation tactics used to test the model is developed.

Chapter Three describes the methods and techniques used to test the model developed in Chapter Two. Chapter Three begins with an overview of the model, a description of the sample research instrument, and data collection. The quasi-experimental design is used, based on a sorting task of auditors' negotiation tactics.

Chapter Four commences with a multidimensional scaling (MDS) solution to the proximities developed from the experimental task. Cluster Analysis reveals the internal structure of the categories identified by the MDS.

Chapter Five summarises the findings of the study. It presents the limitations, including the threats to statistical, internal, and external validity. Implications from the research are also discussed.

2 THEORY DEVELOPMENT

2.1 THE NEGOTIATION CONTEXT

The financial statements presented to external users are not the sole representations of client management (Antle and Nalebuff 1991). Rather, those financial statements are the joint product of negotiations between client management and their auditor. The negotiation process comprises putting forward one's position on an issue, decomposing and combining relevant information wherever possible for that issue, and then reconciling the different positions of the parties (Winham 1977). Regardless of the type of negotiation, the role of the negotiating parties is to communicate positions, make demands and concessions, act in response to changing signals, and achieve an outcome (Spector 1997).

Auditors make Type I errors when they express the opinion that there are no material misstatements, when material misstatements do exist. Type II errors are made when an auditor reports that there is a material misstatement when there is none. Type II errors are more likely to be challenged by management, and thus subject to negotiation.

Antle and Nalebuff (1991) called attention to the negotiated aspect of financial statements and the situation they termed "rational conservatism". They contend that rational conservatism is the only safeguard against uncorrected auditor errors that overstate income. According to their research, Type I errors will not be actioned upon

by management. Any audit error unfavourable to management is identified by the client in most cases (Antle and Nalebuff 1991). Clients demand corrections by insisting on an extension of the audit procedures. An extension of the audit procedures results in the auditor obtaining more accurate evidence about the client's income. This phenomenon reflects one of Devine's (1963) reasons for conservatism: the client firm having an increased incentive to correct negative mistakes¹ and a decreased incentive to correct positive audit errors (Antle and Nalebuff 1991).

Devine (1963) argues that a firm's data are "biased in both selection and emphasis", reflecting management's objectives, and an auditor must resist pressure of client management to accept such prejudiced financial statements. Consequently, negotiations between the auditor and client management are important. "*The auditor and client are in essence negotiating the trade-off between inaccuracies and auditing costs*" (Antle and Nalebuff 1991, p.36).

Gibbins et al. (2001) described the characteristics of the accounting negotiation process as including its duration, the number and seniority of the people involved on both sides of the negotiation, and their initial stances about the possible outcomes of the negotiation. Outcomes are the contents of the client's financial statements, the auditor's opinion, the reappointment of the auditor, and the career and personal importance of the outcomes to the audit partner.

¹ A negative mistake is one that reduces the reported income figure, while a positive mistake takes the income figure upwards.

Contextual features both impose upon and are influenced by the negotiation process. Such features include interpersonal factors, external conditions and constraints, and the capabilities of the parties. Gibbins et al. (2001) found that 48% of their respondents considered that agreement was a likely result due to there being a range of mutually acceptable outcomes available. A person believing in the possibility of mutually acceptable outcomes (or joint benefits) typically uses integrative tactics (Weingart et al. 1996; Thompson 1990). Gibbins et al. (2001) also found that 37% believed that the auditor's position was the sole acceptable outcome and that persuasion was needed to convince others accordingly.

The research of Gibbins, McCracken and Salterio (2005a) used the Gibbins Salterio and Webb (GSW hereafter) 2001 model of auditor-client negotiations, when they studied the recollections of both auditors and chief financial officers (CFOs). Responses from field questionnaires by 70 CFOs of public companies, large private companies and not-for-profit organisations provided data on audit client negotiations. Gibbins et al. (2005a) sought to determine areas of alignment and divergence in the subjects' negotiation recalls.

These researchers concluded that there are substantial similarities in auditor and CFO recalls and mental models² about negotiation experiences. They found that the GSW negotiation model did contain common elements that were applicable to both sides of

² A mental model is a cognitive representation of the expected negotiation that includes an understanding of the self and the negotiation relationship between the parties, (Bazerman et al. 2000).

the negotiation interaction. Gibbins et al. (2005a) found that both parties concentrate on convincing the other side to accept their position, which is a win-lose strategy³. They recommended that auditors receive negotiation training based on that stance, rather than on the assumption that each party is attempting to achieve an integrative (win-win) strategy⁴.

Improving an auditor's efficacy in the negotiation process concerning a subjective issue was the focus of Trotman, Wright and Wright's (2005) research. They gave 45 audit partners and managers from Big 5 firms an experimental task involving negotiating a proposed audit adjustment for inventory. Subjects were given one of three intervention methods: role-playing, passive consideration of the client's perspective, and mock negotiation. Their view was that effective negotiations require an appreciation of the client's position, and such an appreciation would be gained through role-playing and passive intervention methods. Practice interventions (mock negotiations) would enable the auditor to carefully plan appropriate negotiation tactics prior to interacting with the management, again improving the effectiveness of the negotiation. Trotman, Wright and Wright (2005) found that the role-playing intervention method achieved a superior outcome to that of the passive and practice methods. The difficulty with role playing is that it implies knowledge of negotiation tactics used in an audit situation.

³ A win-lose, or zero-sum strategy, does not allow for trade-offs across the issues and leads to a distributive solution, (Weingart et al. 1996).

⁴ These findings differ from Goodwin's (2002) exploratory study, but her responses could have suffered from self-reporting bias.

2.2 OVERVIEW OF THEORETICAL MODEL

The literature on negotiation considers three primary units of analysis: motivational orientations/dimensions (hereafter referred to as orientations/dimensions); conflict styles or strategies; and tactics.



FIGURE 2-1 UNITS OF ANALYSIS

A person's motivational orientation towards the dispute determines the type of conflict style, or strategy, pursued in attempting to resolve the issue. That orientation is based on their level of concern for the parties involved in the dispute (Deutsch 1958; Blake and Mouton 1964; Rahim 1983; Thompson 1990; van de Vliert et al. 1990; McLaughlin et al. 1991; Carnevale et al. 1992; Thomas 1992). A negotiator chooses tactics that he/she believes achieves their strategic objective (Spector 1997; Thompson 1990; Carnevale et al. 1992; Thomas 1992; Littlefield et al. 1993).

The model derived from the theory presented in subsequent sections is shown in Figure 2-2. The axes in Figure 2-2 represent the orientations/dimensions that dictate the strategy to be chosen by the auditor. The symbol Δ represents a particular tactic such as "Press them hard to make a compromise". The clusters of tactics are related by the strategies the auditor believes best supports their motivational orientations (Kuhlman et

al. 1986; Messick and McClintock 1968; Carnevale and Pruitt 1992).

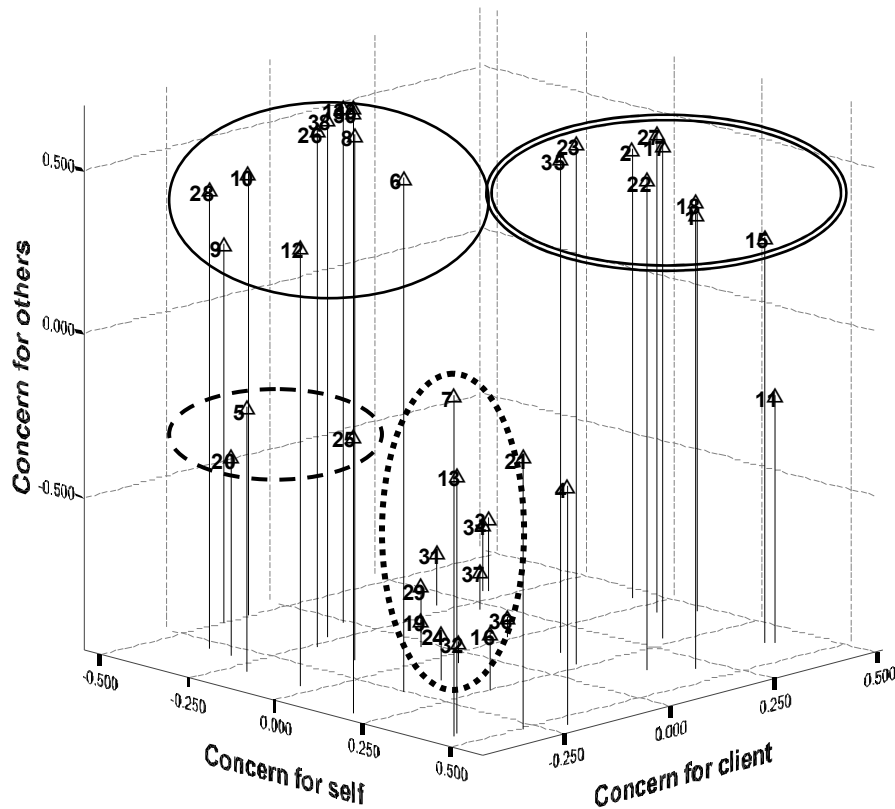


FIGURE 2-2 MODEL OVERVIEW

Motivational orientations or dimensions reflect the inherent dimensions that provide the basis for selecting strategies. This research proposes that auditors' motivational orientations are based on three levels of concern, stemming from their unique role as an auditor. Three dimensions are proposed for this literature as follow:

- Orientation towards one's self
- Orientation towards the client

- Orientation towards others.

While the psychological literature deals mainly with the first two orientations, the auditors' responsibility to external users of financial statements suggests they consider this third orientation in addition to the others. The psychological literature suggests that the orientation chosen is likely to be contingent on the negotiation situation and the stage of the negotiation (Carnevale and Pruitt 1992).

The extent of concern for each of the various parties in a negotiation is one's motivational orientation (Deutsch 1958). A person with an orientation towards one's self is concerned with their own outcome, and is motivated to maximise their own gains. That person is likely to use tactics that are contentious, rather than problem solving (De Dreu et al. 2000). A person with an orientation of concern towards others considers it important to satisfy their needs, rather than his or her own, and would use less competitive or contentious tactics. The auditor-client relationship, however, extends to include those who are reliant on the truth and fairness of the client's financial statements⁵. Auditors, therefore, are concerned about the welfare of those third parties in addition to the client and their own self.

The motivational orientations determine the negotiation style/strategy chosen by the negotiator. The literature suggests five negotiation strategies:

- Accommodating;

⁵ While legally this is the auditor's primary concern, it is an empirical question as to whether it is.

- Compromising;
- Forcing/asserting;
- Problem solving; and
- Avoiding.

The accommodating strategy (termed “obliging” by some researchers, for example Goodwin 2002), implies that a person is willing to “sacrifice his or her interests to benefit the other” (Kleinman and Palmon 2000), or at least to downplay their own interests so that the other party is satisfied (Goodwin 2002). The negotiation styles drive the choice of tactics used by the auditor. An auditor choosing an accommodating style would use tactics such as “Take responsibility for their concessions”, or “Help “save face” for individuals”.

A compromising strategy is suggestive that the party is willing to surrender some of their own interest if the other party does the same (Kleinman and Palmon 2000). A person using this strategy might rely on tactics of “Make substantive suggestions for compromise”, or “Call for frequent caucuses”.

A person using an aggressive conflict handling style uses the forcing/asserting strategy (Kleinman and Palmon 2000). “Press them hard to make compromises”, “Control the timing or pace of negotiations”, “Tell the other party they are being unrealistic” are examples of tactics that would be used with this strategy.

A problem solving style implies that a person aims for an outcome where both parties

are satisfied with the outcome (Kleinman and Palmon 2000). “Attempt to “simplify” the agenda by eliminating/combining issues”, “Suggest a particular settlement”, “Keep negotiations focused on the issues”, are tactics used within a problem solving strategy.

An avoiding strategy is where the negotiator does not want to deal with the situation and walks away from the relationship (Ury et al. 1988). This strategy is excluded from the theoretical model because an auditor cannot take this approach when dealing with financial statement negotiation, given their statutory obligations.

The literature suggests that negotiators may use one or more strategies depending on the negotiation context or the stage of the negotiation. For example, an auditor may use a forcing/asserting strategy when the client has a going-concern problem, as the auditor’s concern may involve both self-interest and concern for external parties. At the early stages of a negotiation, the auditor may use compromising and accommodating styles, and may switch to a more assertive style when the negotiations move towards the final stages. This contingency aspect of negotiation is not tested in this research.

The tactics, when considered as a group or cluster, represent the style or strategy used by the auditor in negotiations. They will correspond to the dimensions that represent the auditor’s orientation.

2.3 MODEL JUSTIFICATION

The general negotiation literature identifies four orientations that impact upon

negotiator strategies (Messick and McClintock 1968; Kuhlman et al. 1986). Carnevale and Pruitt (1992) summarise these motivational orientations as follows:

- *Individualistic orientation* – exclusive concern about one’s own outcomes;
- *Altruistic orientation* – exclusive concern about the other parties’ outcomes;
- *Cooperative orientation* – concern about both parties’ outcomes; and
- *Competitive orientation* – desire to do better than the other party (Carnevale and Pruitt 1992, p.539).

According to Carnevale and Pruitt (1992), an altruistic orientation is probably less common than the other three orientations.

The individualistic, cooperative, and competitive orientations are important because they form the basis of the models used to explain negotiation strategies (Blake and Mouton 1964; Rahim 1983; Pruitt 1992), and it is the negotiation strategies that are supported by negotiation tactics. For example, a person with an individualistic orientation is likely to choose a forcing/asserting strategy and therefore the tactics that they choose reflect that strategy. A problem solving strategy is used by a person with a cooperative orientation, who uses tactics that achieve an outcome where both parties’ needs are satisfied. This leads to Proposition 1.

Proposition 1: *Three dimensions underlie the strategic choices of an auditor in dealing with a dispute with a client-manager: concern for self, concern for client, and*

concern for others.

The individualistic orientation dominates experimental-negotiation research. This orientation has led to the development of a one-sided theory (Carnevale and Pruitt 1992). Because both auditors and management are in effect possessed of a cooperative or competitive orientation, this research may have questionable value for audit researchers. One area of negotiation research that better reflects the audit negotiation process is the dual concern model which involves three of the above orientations (Carnevale and Pruitt 1992).

To predict strategic choice in the negotiation process, researchers have extended Blake and Mouton's (1964) conflict grid to develop a dual concern model. The dual concern model of strategic choice prediction views concern for self and concern for others as independent dimensions running from weak to strong (Carnevale and Pruitt 1992). Within this model, a person's conflict handling style is identified according to "which of the five two-dimensional locations in the grid they psychologically occupy" (van de Vliert and Kabanoff 1990). The five conflict handling styles defined by Blake and Mouton (1964) were:

- avoiding,
- accommodating,
- compromising,
- competing, and

- collaborating.

These styles indicate the strategies that a person uses in dealing with conflict. The dual concern model predicts the strategy likely to be employed, i.e., the behaviour of the party, in resolving the dispute from an analysis of the negotiators' motives (Rhoades and Carnevale 1999; Cosier and Ruble 1981). This model has been criticised in psychological research for its failure as a comprehensive theory of strategic choice because it overlooks the competitive motivational orientation. It has gained additional criticism because it does not explain why and how strategies are changed throughout a negotiation. Carnevale and Pruitt (1992) contend that this two-dimensional model depicts the preferred strategy, but due to practical considerations, other strategies must be employed if an acceptable outcome is to be reached.

Notwithstanding, the use of a dual concern model in making predictions about strategic choices has been in practice by researchers since the late 1970s. Carnevale and Pruitt (1992) argue it is superior to unidimensional models which are inadequate representations of conflict-handling behaviour (Cosier and Ruble 1981).

Thomas (1992) reports that researchers differ in the labels they use within the two-dimensional model and within the various adaptations of the model. Some researchers have couched the dual concern model in terms of values or desires, allowing them to assert that the two dimensions explain or predict the occurrence of the conflict-handling modes (Thomas 1992). It is important, however, to remember that the dual concern model of negotiation or conflict resolution that has recently underpinned

various accounting research is an heuristic device only. Indeed, various researchers, for example Weingart, Hyder and Prietula (1996) and Bazerman, Curhan, Moore and Valley (2000) warn that inappropriately applying simplifying heuristics leads to negotiation biases and predictable mistakes.

Researchers differ on whether the dual or the three-dimensional conflict model best describes the audit negotiation process (Kleinman and Palmon 2000; Goodwin 2002; Trotman et al. 2005; Gibbins et al. 2001). Kleinman and Palmon (2000) argue against the validity of using a dual concern conflict model to conceptualise the auditor-client negotiation situation. Instead, they promote the use of a three-dimensional model which separates the concern for others perspective into concern for the client and concern for the broader users of the published financial statements. This perspective recognises that an auditor's responsibility lies in preparing a report that expresses an opinion to third parties. According to these researchers, a three-dimensional conflict grid model stresses the collaboration strategy that is necessary to achieve an integrative solution that addresses the most critical needs of all the parties. Kleinman and Palmon (2000) have also based their conflict styles on Blake and Mouton's (1964) model, using the categories of:

- avoidance,
- accommodation,
- compromise,
- forcing/asserting, and

- problem solving.

The additional demands placed on an auditor by their role is likely to influence the appropriateness of a given model. Shafer et al. (2001) investigated the criticism that professional auditors subordinate their independent judgment in the face of client pressure for aggressive financial reporting. This problem is reported to be one of the most frequently identified ethical challenges in public accounting.

Schafer et al. (2001) concluded that while personal values were not found to influence ethical decision-making in auditing, the moral intensity⁶ did influence auditors' ethical decision processes. Their other conclusions were that auditors' predisposition to support aggressive accounting treatments was significantly affected by the magnitude of potential consequences and the probability of harm to financial statement users. These concepts lend support to Kleinman and Palmon's (2000) preference for a three-dimensional conflict model of concern.

2.4 AUDITING NEGOTIATION RESEARCH

Goodwin (2002) applied the dual concern model when she used the ROCI-II⁷ conflict management model (1983b) in her research on auditors' bargaining styles. The ROCI-II model extends the conflict grid originating from Blake and Mouton in 1964 and reinterpreted by Thomas in 1976 (Rahim 1983). It has the two dimensional elements

⁶ Moral intensity is a multi-dimensional construct defined by Jones (1991) as "a construct that captures the extent of issue-related moral imperative in a situation".

⁷ Rahim Organizational Conflict Inventory-II

of assertiveness – attempting to satisfy one’s own concerns, and cooperativeness – attempting to satisfy other’s concerns. The ROCI-II model identifies five conflict handling styles that are consistent with those of Blake and Mouton (1964):

TABLE 2-1 COMPARISON OF ROCI-II (1983B) AND BLAKE AND MOUTON (1964) MODELS

ROCI-II model (1983b)	Blake and Mouton (1964)
Integrating	Collaborating
Dominating	Competing
Obliging	Accommodating
Avoiding	Avoiding
Compromising	Compromising

The five styles of handling interpersonal conflict depend on the level of consideration given to the two orientations inherent in the model (assertiveness and cooperativeness). A high concern for self and high concern for others is categorised as the integrating style, the desired outcome of which is a win-win situation.

Acting with a high concern for self and others with the objective of achieving an outcome that satisfies both parties requires collaboration and open exchange of information. The nature of the integrating style, therefore, is one of being both assertive and cooperative. It follows that a mixture of tactics is employed in the integrating style, as resolution requires identifying and analysing the various differences between the parties and the exploration of new solutions.

A person whose actions in a conflict situation are determined by a high regard for self and a low concern for others (being assertive and uncooperative) is considered to be using a dominating style (Rahim and Magner 1995). A dominating style results in a win-lose outcome (Rahim and Magner 1995). Being unassertive and cooperative indicates the obliging style, where the outcome is a lose-win situation (Rahim and Magner 1995). Here, a person acts with a low concern for self and a high concern for others, emphasising shared aims and de-emphasising differences (Rahim and Magner 1995).

The avoiding style is unlikely to resolve the conflict in an audit negotiation. Its elements are that of having a low concern for self and a low concern for others (Rahim and Magner 1995). In this style, the player is both unassertive and uncooperative and exhibits the attitude of being unwilling to deal with the issue at hand (Kleinman and Palmon 2000). Perhaps this style is practiced by those who believe that the issue will just blow over and disappear if left alone. However, it is not a position that can be taken by an auditor.

A give and take attitude demonstrating an intermediate level of concern for self and others denotes the compromising style, where assertiveness and cooperation are both present, but in a diluted form. Both parties give up something to arrive at a mutually acceptable outcome (Kleinman and Palmon 2000; Rahim and Magner 1995).

Shell (2001) posits that a person's negotiation style can be crucial in a negotiation and that our unique personality traits impact how we go about the negotiation. Goodwin

(2002) determined that auditors predominantly adopted the integrating style in negotiation. This results in a win-win situation, where the goals of both parties are satisfied (Carnevale and Pruitt 1992).

Goodwin (2002) expanded her analysis by adopting a categorising system put forward by Thomas (1976) which organises the five conflict management styles (integrating, dominating, obliging, avoiding, and compromising) into integrative and distributive dimensions of conflict management styles. Her findings were that auditors lean more towards the integrative dimension by seeking resolutions that satisfy both parties, yet there were indications that some auditors prefer to satisfy their own concerns at the expense of those of the client-management (a distributive dimension).

In determining the conflict management styles used by auditors, Goodwin (2002) also manipulated client characteristics, that of the size of the client and the influence possessed by the client. She also explored whether the client's corporate governance structure affected the conflict management style of the auditors. Participants (audit partners and managers) were confronted with a survey instrument where the aim was to establish the participants' normal style employed in resolving conflicts with their clients concerning financial statement issues. The responses indicated that the integrative style was the normal practice for 68 out of the 73 participants.

Another section of the instrument introduced a scenario involving a dispute between the auditor and the finance director of a listed company concerning the valuation of inventory. It was here that the client-characteristic variables of size, influence, and

corporate governance strength were manipulated between subjects. Goodwin (2002) found that the choice of styles employed by auditors was slightly influenced by the size of the client and the strength of their corporate governance structure only. Although Goodwin's (2002) study is exploratory in nature, it is important because it concentrated on the behavioural aspects of conflict resolution and negotiation. The auditor's independence and the credibility of financial statements are affected by the results of such conflict resolution and negotiation. Though useful for Goodwin's (2002) purposes, the ROCI-II model does not provide sufficient descriptive power to specify the tactics used in the negotiation process.

An alternate approach to developing theories of negotiation use a grounded theory (Beattie et al. 2004). A grounded theory is one that is built inductively through a process involving the qualitative analysis of data (Beattie et al. 2004). Their 2001 book, *Behind Closed Doors: What Company Audit is Really About*, identified various dimensions that had an impact on the negotiation process between finance directors and audit partners concerning significant accounting issues.

Using unstructured interviews, Beattie et al. (2004) elicited from the financial directors a narrative of auditor negotiations. Beattie et al. (2004) subsequently interviewed the audit engagement partners with whom the finance director had interacted, taking care not to reveal the finance directors' outlook on the issues that had been brought to the surface by the finance directors. The types of issues revealed in these interviews were:

- fundamental principles (whether the item under discussion was one of

fact or judgment),

- judgment (for example, relating to recognition, measurement, valuation, or classification), and
- compliance (for example, disclosure issues).

Other key specific contextual categories that were revealed by Beattie et al. (2004) were consistent with the accounting adaptation of the basic negotiation process model that was depicted by Gibbins, Salterio and Webb (2001).

Both teams of researchers identified similar factors, but differed in their categorisation of those factors. For an example, Beattie et al. (2004) differentiated between the outcomes and consequences of the interaction within their negotiation process. Gibbins et al. (2001) placed the characteristic of “next interaction” outside of their three-element process model. The work by Beattie et al. (2004) presented the interaction outcome perspective to be the quality of accounting and the ease of agreement.

Beattie et al. (2004) identified eight strategies employed by parties in negotiating accounting disputes. It is possible to ascribe Blake and Mouton’s (1964) conflict handling styles or behavioural orientations to most of the Beattie et al. (2004) strategies, as shown in Table 2-2:

TABLE 2-2 BEATTIE ET AL. (2004) STRATEGIES

Strategy	Approach	Blake and Mouton (1964)
Assertiveness	Stating one's position very firmly	Competing
Sanction	Threatening to change auditor or tender, escalation or threatening to escalate negotiation by involving additional parties and threatening to or actual qualification of the financial reports	Competing
Reason	Use evidence to support argument, and using reasoned argument	Collaborating
Bargaining	The willingness to compromise, and strategic give and take across issues	Compromising
Appeal to higher authority	Seek confirmation and authority for the various positions of the parties	Competing
Coalesce	Agreed strategy for handling third parties, getting third party on-side to secure agreement	
Ingratiation	Taking the blame	Accommodating
Conditions	Applying conditions to acceptance of the other party's position	Compromising

The Beattie et al. (2004) strategies concern both parties in the audit negotiation process. Hence, not all of their strategies relate to the auditor's viewpoint. For example, their grounded theory model of auditor negotiations includes a strategy of "ingratiation" by taking the blame. This is incongruent with an auditor's role as it is unlikely to be used in practice. Indeed, Beattie et al. (2004) report that ingratiation and conditional acceptance strategies were associated with poor outcomes.

Although the Beattie et al. (2004) results might have been biased by the small sample on which their study was based, the auditors admitted to using most of the strategies. According to their research, auditors do not use the strategic "give and take" approach. The financial directors were found to use only six of the strategies. Where the

common use of strategies occurred, auditors were more consistent in their use than were directors. As an example, the approach of “stating your position very firmly”, a component of an assertive orientation, was indicated as being used by auditors in eight instances, compared to a single occurrence by a financial director. Similarly, auditors used the technique of “willingness to compromise” four times more than did the financial directors.

The Thomas-Kilmann Conflict Mode Instrument, or TKI, is another psychological assessment tool that is derived from the dual concern model, and is based on the five different conflict handling styles identified by Blake and Mouton (1964):

- avoiding,
- accommodating,
- compromising,
- competing, and
- collaborating.

This instrument is used extensively in executive bargaining training (Shell 2001). The TKI model differs from the ROCI-II model in that it prompts the selection of modes based on one’s overall preferred attitude. Shell (2001) explains that TKI measures predispositions, and a person might still be capable of behaving otherwise, depending on the situation or on other parties’ actions. While the TKI model has not been used in audit research, its five behavioural orientations give insights into the tactics a

negotiator might use, based on their general attitude to dealing with conflicts.

Table 2-3 summarises the literature on negotiation styles that impact on the tactics used.

TABLE 2-3 SUMMARY OF LITERATURE ON NEGOTIATION STRATEGIES/STYLES

Blake and Mouton (1964)	TKI ^a	Rahim (1983b)	Kleinman and Palmon (2000)	Beattie et al. (2004)
Avoiding	Avoiding	Avoiding	Avoidance	
Accommodating	Accommodating	Obliging	Accommodation	Accommodating
Compromising	Compromising	Compromising	Compromise	Compromising
Competing	Competing	Dominating	Forcing/Asserting	Contentious
Collaborating	Collaborating	Integrating	Problem Solving	Collaborating

^a *Thomas-Kilmann Conflict Mode Instrument, as reported by Shell (2001), "Bargaining Styles and Negotiation: The Thomas-Kilmann Conflict Instrument in Negotiation Training."*

Although different researchers apply different labels, the table suggests agreement among researchers as to the styles used, including the grounded study by Beattie et al. (2004). However, the avoiding style is incongruent with the auditors' legal obligation to form an opinion.

This research proposes that auditors use the above negotiation styles/strategies in an audit conflict situation, but professional requirements prevent the use of an avoiding strategy. While there are at least five styles that could possibly describe audit strategies, those proposed by Kleinman and Palmon (2000) are most congruent with the three dimensional orientation of the audit. Accordingly, the model draws the

second proposition as follows:

Proposition 2: *Auditors use the same negotiation styles/strategies as found in previous negotiation literature with the exception of an avoidance strategy. The audit strategies that an auditor uses are: Accommodating, Compromising, Forcing/Asserting, and Problem Solving.*

2.5 TACTICS

While a substantial amount of work concerning the execution of audit conflict negotiations has been done at the strategic level, very few researchers have approached the subject from its most basic element, that of the tactics that auditors use to resolve that conflict. This research makes a positive contribution to current knowledge by examining the actual tactics that auditors use when confronted with a dispute concerning a matter of judgment. In doing so, the work in auditing is supplemented with the psychological literature relating to professional mediators. The psychological literature identifies a collection of general mediation tactics employed when they attempt to resolve a dispute. These general negotiation tactics have been modified to present an audit viewpoint, and extended to include other audit-specific tactics identified by practicing professional auditors. The result is a comprehensive list of 38 auditor tactics.

Auditor tactics were considered in a recent study by Hatfield, Agoglia and Sanchez (2005). Hatfield et al. (2005) focused on whether client characteristics, identified as collaborative or competitive, influenced the extent to which certain strategies are used

by auditors. While this work focused on a reciprocity-based strategy (where if one party is given something, it feels obliged to respond with a similar offering), its considerations reflected additional approaches that auditors use to resolve conflicts during negotiations about financial statement reporting issues. Their study recognised the interactive nature of such negotiations, which is an aspect of negotiations that dual concern models overlook.

Hatfield et al. (2005) had their participants use a computer-simulation to prepare a list of differences concerning income-decreasing items discovered during an audit that they felt were necessary to present to client management. If an auditor employed a reciprocity-based strategy, he/she would be likely to disclose unimportant items initially, so that insisting on adjustments for those items could be surrendered in front of the client. This would project a perception to the client of being given something of worth. According to the reciprocity rule, it should follow, then, that the client would agree to the adjustment of the more important items.

They manipulated whether clients are considered to be collaborative or competitive negotiators, and their likelihood to re-engage the auditor (causing concerns about audit retention risk). Hatfield et al. (2005) found that these two client characteristics did have an effect on auditors' use of a reciprocity-based strategy. Auditors make greater use of that strategy when their client was a competitive negotiator and they were in a position where the continuation of their audit services was under review by the client. The nature of the study meant that only the give and take tactics were considered.

The opinions of both parties in an auditor-client conflict situation were simultaneously gauged by Bame-Aldred and Kida (2007). Their research identified the likelihood of using certain negotiation tactics by the parties to an accounting dispute. They studied 71 professional auditors and experienced financial managers (numbering 33 and 38 respectively). They focused only on contentious and problem-solving tactics, and therefore ignored the third general strategic choice of concession making. They do suggest that conceding is an element of the audit negotiation process.

Bame-Aldred and Kida (2007) found that auditors and clients use very different approaches in their styles of resolving revenue recognition issues. Participants reported the likelihood of their using six possible tactics, three contentious and three problem-solving, during negotiations with the other party in the accounting conflict, as listed in Table 2-4.

TABLE 2-4 BAME-ALDRED AND KIDA (2007) TACTICS AND STRATEGIES

Tactic	Strategy
Select an initial revenue recognition solution to get the most from the client [auditor]. If necessary, you can concede to a less [more] conservative position later in the negotiation.	Contentious
Try to get information about the client's [auditor's] preferences on the revenue recognition issues.	Problem solving
Threaten to qualify the opinion or terminate the relationship [Threaten to terminate the relationship] if the client [auditor] does not agree with your revenue recognition solution.	Contentious
Whatever initial revenue recognition solution you communicate to the client [auditor], do not appear as if you will back down. Appear firm.	Contentious
Attempt to trade-off certain issues. There may be certain issues that are important to you and not very important to the client [auditor] and vice versa.	Problem solving
Provide substantial rationale for your revenue recognition solution to persuade the client [auditor] to change their mind.	Problem solving

Both parties rated two of the problem-solving tactics highly. Both parties indicated a level of agreement with how they viewed the tactics of seeking the other party's preferences and providing substantial rationale to persuade the other party to change their mind. The third problem-solving tactic involving trade-offs, however, was more likely to be used by clients than by auditors.

For the contentious tactics, parallel views were held on only one tactic, that relating to

refusing to back down from an initial position; both parties indicated that they would not back down. Clients, however, were more likely to adopt a high starting position from which they can concede to a lower point later in the negotiations. It was found that auditors would be more likely to threaten to qualify the audit opinion than clients would be to threaten sacking the auditor, but this tactic rated the lowest of all six tactics by both sides, suggesting that it is not favoured by either.

Bame-Aldred and Kida (2007) explained the differences in ratings between the two types of participants as relating to their professional responsibilities. Auditors are required to maintain their independence and are cognisant of the perils of breaching accounting standards and GAAP, and therefore would be less likely to use tactics that would violate their professional responsibilities, while clients aim to maximise their shareholders' value.

McLaughlin et al. (1991) identified 36 tactics used by professional negotiators. Table 2-5 shows these tactics which McLaughlin et al. (1991) categorised as reflexive, substantive, contextual, affective and forcing. The first three category labels were taken from Kressel and Pruitt's 1985 refinement of Kressel's (1972) strategies, and which are generally in use in the mediation literature. According to McLaughlin et al. (1991), a reflexive strategy uses such tactics that orient the negotiator to the dispute and establish the groundwork for later activities; a substantive strategy uses tactics that deal directly with the issues and promote solutions for settlement; and a contextual strategy calls for the use of tactics that alter the climate or conditions to facilitate mutual problem solving. McLaughlin et al. (1991) included two

supplementary categories, affective and forcing. Affective strategies indicate tactics that reflect a mediator's orientation and concern for the individuals' feelings and needs; and a forcing strategy uses tactics that put pressure on the parties to reach settlement (McLaughlin et al. 1991).

One objective of this study is to determine how tactics used by auditors can represent their mental representations of the negotiation process. Underlying this research and other research in psychology is that auditors group tactics according to some similarity in the tactics. In addition, groups are differentiated from other groups because of some differences among those groups. The concept of a group or cluster rests on the notion that there are some inherent similarities in which they are organised internally, and some differences from other clusters or groups. Table 2-5 lists the tactics identified in the mediation literature and identifies the strategies that researchers have proposed may be associated with those tactics.

Column 2 of Table 2-5 has been extended to include the classifications of the McLaughlin et al. (1991) tactics which have been shown under the heading "MCL". Mediator tactics as indicated by the strategy choices put forward in recent audit research are shown in Column 3 to Column 7. Thus, one can compare where the mediator tactics would sit within the strategies identified in the areas of auditing and psychological research.

This research was based on 38 tactics that had been identified by professional auditors as being those used to resolve auditor-client negotiations⁸. It is possible to fit the strategic choices identified in audit research to those tactics⁹. It is proposed that these tactics consist of four groups.

Proposition 3: *The tactics that auditors use to resolve an audit conflict situation comprise four groups: Appeal to Authority, Forcing or Asserting, Contextual, and Facilitating.*

Tactics belonging to an Appeal to Authority group include “Discuss similar issues”, “Seek advice on similar cases and use to support your case”, “Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position”, and “Remind the other party of the responsibility of directors to ensure the accounts present a true and fair view”. These tactics provide authoritative backing to the auditors’ stipulations, and evoke a strategy directed at solving the problem, exercising a concern for other parties apart from the client, and for one’s self.

Forcing or Asserting tactics have the characteristics of an orientation exclusively to the needs of the auditor and a lack of flexibility or accommodation for others. As an example, “Tell the other party they are being unrealistic”, “Press hard to make compromises”, “Point out the ‘costs’ of continued disagreement” are indicative of an

⁸ The auditor tactics are presented in Table 3-2.

⁹ Appendix E shows the strategic choices derived from audit research alongside the auditor tactics.

aggressive attitude aimed at achieving one's own goals at the expense of the other party. Forcing or Asserting tactics suggest their use by a person using a Forcing/asserting conflict management style or strategy, based on an orientation of high concern for one's self. An auditor's mandate to adhere to professional standards and the risk involved with an audit failure orients the auditor to take this position.

Contextual tactics are those that set the scene for the negotiation or assist the negotiation process itself rather than dealing with a specific issue. "Clarify the needs of the other party", "Attempt to simplify the agenda", "Keep the parties at the table and negotiating", and "Keep negotiations focused on the issues" are such tactics. These are used with a strategy of compromising, where the auditor's orientation is an all-round concern for the client, the others, and self.

Tactics such as "Express pleasure at their progress in the negotiations", "Help 'save face' for individuals", "Use humour to lighten the atmosphere", "Develop rapport with the client", "Try to gain their trust and confidence", attempt to facilitate the negotiation process. These tactics are a part of an accommodating strategy. Here, an auditor's concerns are more management-focused.

TABLE 2-5 A COMPARISON OF CLASSIFICATIONS OF PROFESSIONAL MEDIATORS' JUDGMENTS STIMULUS TACTICS LIST

A comparison of classifications of Professional Mediators' Judgments stimulus tactics list (McLaughlin, Carnevale & Lim 1991)						
Tactic	MCL ^a	BFB ^b	Goodwin ^c	TKI ^d	BAK ^e	K&P ^f
1 Attempt to "simplify" the agenda by eliminating/combining issues	Contextual		Compromising	Compromising	Problem Solving	Problem Solving
2 Clarify the needs of the other party	Contextual/ Affective		Obliging	Accommodating	Problem Solving	Accommodation
3 Discuss other settlements or patterns	Substantive				Problem Solving	Problem Solving
4 Point out the "costs" of continued disagreement	Substantive/ Forcing	Assertive	Dominating	Competing	Contentious	Forcing/ Asserting
5 Suggest a particular settlement	Substantive	Assertive			Problem Solving	Problem Solving
6 Control their expression of hostility	Contextual/ Affective		Dominating	Competing		Forcing/ Asserting
7 Express displeasure at their progress	Substantive/ Forcing	Sanctions			Contentious	Forcing/ Asserting
8 Express pleasure at their progress in the negotiations	Substantive/ Affective		Obliging	Accommodating	Contentious	Accommodation
9 Suggest proposals that help them avoid the appearance of defeat on an issue	Substantive	Coalesce	Integrating	Collaborating	Collaborating	Problem Solving
10 Help "save face" for individuals	Substantive/ Affective	Coalesce	Obliging	Accommodating		Accommodation
11 Suggest a review of needs with their constituency	Contextual				Contentious	
12 Try to change their expectations	Substantive		Dominating	Competing	Problem Solving	Forcing/ Asserting
13 Teach them about bargaining or impasse process	Contextual					
14 Try to gain their trust and confidence	Reflexive/ Affective		Obliging	Accommodating		Accommodation
15 Call for frequent caucuses	Contextual		Compromising	Compromising		Compromising
16 Avoid taking sides on important issues in joint sessions	Reflexive					
17 Help develop a framework for negotiations	Contextual		Integrating	Collaborating		Problem Solving
18 Keep negotiations focused on the issues	Contextual		Integrating	Collaborating		Problem Solving
19 Help the negotiators deal with problems with their constituents or superiors	Contextual					
20 Make substantive suggestions for compromise	Substantive	Bargaining	Compromising	Compromising		Compromising
21 Press them hard to make compromises	Substantive/ Forcing	Sanctions	Dominating	Competing		Forcing/ Asserting

A comparison of classifications of Professional Mediators' Judgments stimulus tactics list (McLaughlin, Carnevale & Lim 1991)						
Tactic	MCL ^a	BFB ^b	Goodwin ^c	TKI ^d	BAK ^e	K&P ^f
22 Control the timing or pace of negotiations	Contextual		Dominating	Competing		Forcing/ Asserting
23 Keep the parties at the table and negotiating	Contextual		Dominating	Competing		Forcing/ Asserting
24 Tell them that their position is unrealistic	Substantive/ Forcing	Sanctions	Dominating	Competing	Contentious	Forcing/ Asserting
25 Argue their case to the other party	Substantive/ Affective	Assertive	Dominating	Competing	Contentious	Forcing/ Asserting
26 Use humour to lighten the atmosphere	Contextual/ Affective					
27 Let them blow off steam in front of me	Contextual/ Affective					
28 Have them prioritize the issues	Contextual					
29 Take responsibility for their concessions	Substantive	Ingratiation	Obliging	Accommodating		Accommodation
30 Suggest tradeoffs among the issues	Substantive/ Affective					
31 Attempt to "speak their language"	Reflexive/ Affective					
32 Assure them that the other is being honest	Contextual/ Affective					
33 Tell them the next impasse step is no better	Substantive/ Forcing					
34 Develop rapport with them	Reflexive/ Affective		Obliging	Accommodating		Accommodation
35 Use late hours, long mediation, to facilitate compromise	Contextual/ Forcing					
36 Attempt to settle simple issues first	Contextual		Obliging			Accommodation

^a McLaughlin Carnevale Lim (1991) tactics, that they had adapted from "The selection of mediator tactics in public sector disputes: A contingency analysis", by P.J.D. Carnevale and R, Pegnetter, 1985, *Journal of Social Issues*, 41(2), p. 73.

^b Beattie, Fearnley and Brandt (2004).

^c Goodwin (2002).

^d Thomas-Kilmann Conflict Mode Instrument, as reported by Shell (2001), "Bargaining Styles and Negotiation: The Thomas-Kilmann Conflict Instrument in Negotiation Training.

^e Bame-Aldred and Kida (2007).

^f Kleinman and Palmon (2000).

2.6 SUMMARY OF PROPOSITIONS

Section 2-1 put forward motivational orientations or dimensions reflecting the inherent dimensions that provide the basis for selecting strategies. Auditors have a unique role in that their obligations encompass the well-being of various other parties, apart from the management with which they are in dispute. This research proposes that auditors select strategies based on three levels of concern, rather than the two levels in previous negotiation literature. The three dimensions proposed for this literature are as follows:

- Orientation towards one's self
- Orientation towards the client
- Orientation towards others.

Proposition 1: *Three dimensions underlie the strategic choices of an auditor in dealing with a dispute with a client-manager: concern for self, concern for client, and concern for others.*

An auditor selects a strategy according to their orientation towards one's self, orientation towards the client-management, and orientation towards others.

The audit negotiation literature referred to in Section 2-4 indicates that auditors use common conflict handling styles in negotiating with a client-manager. Although different researchers used different labels, common themes were discernible. This research proposes that the conflict handling styles used by auditors are similar to those found in general negotiation literature, but that an auditor's role prevents the use of the avoidance strategy.

Proposition 2: *Auditors use strategies that are: Accommodating, Compromising, Forcing/Asserting, and Problem Solving.*

Section 2-5 identified strategies and tactics found in recent audit negotiation literature. The nature of the tactics that auditors use in different negotiation settings will depend upon the strategy selected to handle that dispute. Auditor-specific tactics with common characteristics will group together, and there will be noticeable differences among the groups so formed. This research proposes that four main categories will be found within the 38 auditor tactics.

Proposition 3: *The tactics used by auditors fall into four main categories: Appeal to Authority, Forcing or Asserting, Contextual, and Facilitating.*

3 RESEARCH METHOD

3.1 INTRODUCTION

Chapter Two proposed that auditors use three of the orientations/dimensions when negotiating with management over accounting issues. It further specifies the nature of those dimensions. This chapter presents the methods used to test these propositions. It proceeds as follows. Section 3.2 provides an overview of the experimental design and a justification for the methods used. Section 3.3 details the instrument construction and the procedure of pilot testing. Section 3.4 specifies the participants, their selection, and characteristics. The penultimate section outlines the statistical procedure used to test the propositions. The final section, Section 3.6, provides a summary of this chapter.

3.2 OVERVIEW OF THE RESEARCH DESIGN

McLaughlin et al. (1991) identified the cognitive representations of tactics employed by professional mediators. Their research diverged from other psychological research in that it categorised the mediators' conceptualisations of tactics, rather than those of researchers. This research takes the same approach by using the techniques of multidimensional scaling and cluster analysis on the survey responses of audit partners and managers. The survey instrument identified 38 recognised audit negotiation tactics and requested participants to sort and group the tactics into mutually exclusive categories. Participants also rated each tactic on an importance scale. The number of categories chosen was individually determined by participants.

Using those categorisations, this research created a diagonal similarities matrix comprising 38 tactics x 38 tactics. Tactics were counted as being similar if

they were paired in the same category. As an example, counting the number of times that tactic 5 was paired with tactic 34 across respondents results in that number being entered into a data cell in the matrix corresponding with the pair 5, 34. Similarities data were analysed using multidimensional scaling to identify the number of dimensions of the auditors' judgments. Cluster analysis was also performed. This research used SPSS¹⁰ for analysis.

Sorting techniques such as those used in this research have been applied in a number of substantive areas such as expert cognition and memory (Chi et al. 1981), word meaning (Burton and Romney 1975), conceptions of personality (Wing and Nelson 1972; Bimler and Kirkland 1997), and group similarities (Jones and Ashmore 1973). One advantage of sorting techniques is that neither the subjects nor the researcher needs to specify the dimensions *ex ante*. The number and nature of the dimensions result from the analysis of the subjects' responses. Rosenberg and Kim (1975) suggest that sorting studies are an economic method when dealing with a large number of objects. For example, using a semantic differential development technique (Osgood et al. 1971) on a repertory grid technique (Kelly 1965) requires subjects to make 703 pairwise comparisons ($38 \times 37 \div 2$) for 38 objects of interest.

The purpose of this research was to identify auditors' cognitive representations of the negotiation tactics they use and to compare these with the theoretically identified

¹⁰ Statistical Package for the Social Sciences

categorisations. Multidimensional scaling allows us to identify these tactics. Cluster analysis gives more detail on the structure of these dimensions.

3.3 RESEARCH INSTRUMENT

One of the basic tenets of sorting experiments is that people can make meaningful differentiations among stimuli using a wide variety of criteria (Burton and Romney 1975). To understand the dimensions/strategies used by auditors requires a stimulus in the form of the tactics used in audit negotiations. The initial sorting instrument for this study was developed from the Carnevale and Peggnetter (1985) comprehensive list of mediation tactics. Their list was developed from interviews of 40 professional mediators, content analysis of extensive mediator transcripts, case studies of negotiation, and the research literature.

3.3.1 NEGOTIATION TACTICS

This list of 36 tactics was presented to seven audit partners. The first partner approached was asked to read the tactics and identify tactics auditors do not use. The partner was then asked to add additional tactics to the list. The original list plus the additional suggestions were presented to the second partner with the same instructions. The process continued for seven partners across four firms. For the last three partners, no new tactics were added and no tactics deleted that had not been deleted by the previous four partners. Tactics on which there was unanimous agreement to delete were deleted. A tactic that some auditors recommended for deletion but which at least one partner did not delete remained in the instrument. Table 3-1 shows those deleted tactics and those additional tactics.

TABLE 3-1 DELETED AND ADDED TACTICS

Deleted	Added
<ul style="list-style-type: none"> • Teach them about bargaining or impasse procedures • Avoid taking sides on important issues in joint sessions • Help the negotiators deal with problems with their constituents or superiors • Suggest tradeoffs among the issues • Assure them that the other is being honest • Tell them that the next impasse step is no better • Use late hours, long mediation, to facilitate compromise 	<ul style="list-style-type: none"> • Present your draft qualified-audit opinion on the issue to indicate the strength of your convictions if there is not compliance • Draft suitable notes to the accounts to illustrate your position and how a question of disclosure can be more acceptable to a client once they see a suggested wording in black and white (this gives them something specific to look at, rather than arguing in general terms the need or otherwise for a disclosure of a matter) • Tell them that their position is against spirit of the relevant accounting standard • Deal with interpretation issues in the relevant standards; normally each party readily accepts the need to comply with the law, but they sometimes have a different interpretation on what a standard or a section of the law is saying • Get another partner in the firm to assure the client that you are being reasonable and fair • Remind the other party of the responsibility of directors to ensure the accounts present a true and fair view • Seek advice on similar cases and use to support your case • Use the conceptual framework (SAC 1,2,3) to help reinforce your position • Bring in other partners/accountants not directly involved in the audit to support your position

The deleted tactics are typical of a mediator's role, i.e., as an intermediary who assists the parties to a dispute in their discussions with the aim to make the negotiation more viable and lessen the likelihood of struggle or arbitration. The tactics of "Avoid taking sides on important issues in joint sessions", "Help the negotiators deal with problems with their constituents or superiors", "Assure them that the other is being honest", and "Use late hours, long mediation, to facilitate compromise" are indicative of this intermediary role, which does not apply in an audit setting. "Teach them about bargaining or impasse procedures" and "Tell them that the next impasse step is no better" are irrelevant to an audit negotiation because stalemates result in a modified audit opinion, a situation which has prompted the negotiation. Similarly, trading off the issues is not an option in an audit setting due to the requirements of true and fair reporting of the financial statements.

The added tactics relate to explaining or highlighting the underlying accounting standards, principles, and concepts, which indicate how financial statements are to be presented and are thus specific to an audit conflict situation. Bringing in other partners and using similar cases are ways to provide verification of the auditor's arguments.

Table 3-2 gives the final list of tactics. The final research instrument used these 38 tactics. The instrument comprised a book of instructions and a set of perforated cards containing one card for each of the 38 tactics, numbered 1 through to 38. These cards also contained an instruction to rate the tactic in terms of its importance and an identifier for the tactic.

TABLE 3-2 AUDITORS' TACTICS

Number	Tactic
1	Attempt to "simplify" the agenda by eliminating/combining issues
2	Clarify the needs of the other party
3	Discuss similar issues in other situations/settlements or patterns
4	Point out the "costs" of continued disagreement
5	Suggest a particular settlement
6	Control their expression of hostility
7	Express displeasure at their progress in the negotiations
8	Express pleasure at their progress in the negotiations
9	Suggest proposals that help them avoid the appearance of defeat on an issue
10	Help "save face" for individuals
11	Suggest a review of needs of their company/board
12	Try to change their expectations
13	Tell the other party they are being unrealistic
14	Try to gain their trust and confidence
15	Call for frequent caucuses
16	Present your draft qualified-audit opinion on the issue to indicate the strength of your convictions if there is not compliance
17	Help develop a framework for negotiations
18	Keep negotiations focused on the issues
19	Draft suitable notes to the accounts to illustrate your position and how a question of disclosure can be more acceptable to a client once they see a suggested wording in black and white (this gives them something specific to look at, rather than arguing in general terms the need or otherwise for disclosure of a matter)
20	Make substantive suggestions for compromise, if within the law and accounting standards
21	Press them hard to make compromises
22	Control the timing or pace of negotiations
23	Keep the parties at the table and negotiating
24	Tell them that their position is against spirit of the relevant accounting standard
25	Argue your case to the client
26	Use humour to lighten the atmosphere
27	Have them prioritize the issues
28	Take responsibility for their concessions
29	Deal with interpretation issues in the relevant standards; normally each party readily accepts the need to comply with the law, but they sometimes have a different interpretation on what a standard or a section of the law is saying
30	Attempt to "speak their language"
31	Get another partner in the firm to assure the client that you are being reasonable and fair
32	Remind the other party of the responsibility of directors to ensure the accounts present a true and fair view
33	Develop rapport with the client
34	Seek advice on similar cases and use to support your case
35	Attempt to settle simple issues first
36	Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position
37	Bring in other partners/accountants not directly involved in the audit to support your position
38	Let them blow off steam in front of me

3.3.2 INSTRUCTIONS TO PARTICIPANTS

Instructions to the survey conveyed the purpose of the research. This was to provide information on the strategies used by auditors in resolving disputes with their clients concerning accounting and reporting issues that did not involve a direct violation of an accounting standard or a statutory requirement. That is, at issue was the interpretation of those standards or principles. The instructions gave two examples of possible issues that would be disputed in like circumstances, and hence require negotiation. These related to the amount of allowances for doubtful debts and the accounting treatment of extended warranty receipts. Both examples are issues that are subject to judgment, rather than the following of a legal regulation or standard. The instructions assured participants that the purpose of the research was to understand how to resolve disputes and maintain a proper professional relationship, rather than to judge the appropriate treatment of disputed matters.

The 38 numbered tactics were listed on perforated A4 card paper so that each tactic could be separated for sorting by the respondent. Participants were asked to sort the tactics into piles containing those which were considered to be similar, and to record them on the sheets provided. They were also asked to rate each tactic on its importance, using a 1 to 5 scale, with 1 being very important and 5 being very unimportant. Participants were provided with a self-coding sheet. For each group of tactics for the sorting task, participants circled the tactics in that group, named the group, and rated the importance of the individual tactics. Participants were asked to also rate the importance of the group they formed, but this aspect of the task was mostly ignored. The instrument concluded with a section on the demographic

information of the participants. A copy of the instrument is provided in Appendix G.

3.3.3 RESEARCH PARTICIPANTS

The survey was forwarded to 15 key auditing personnel in four large Australian CPA and Chartered Accounting firms, and to one audit firm in Hong Kong, with the request to distribute the surveys to fellow audit partners or managers. As we do not know how many instruments were passed on to others, we are unable to comment on the response rate. A total of 24 usable responses were returned and the participants' demographic information is summarised at Table 3-3.

TABLE 3-3 DEMOGRAPHIC VARIABLES

	Position		Total *
	Partner	Manager	
Age group			
25 to 30	0	8	8
31 to 35	3	4	7
36 to 40	2	0	2
Over 40	6	0	6
Position experience			
Less than 1 year	1	2	3
1 to 5 years	4	7	11
6 to 10 years	3	2	5
11 to 15 years	1	1	2
Over 15 years	2	0	2
Audit experience			
Less than 3 years	0	1	1
3 to 5 years	0	2	2
6 to 10 years	2	6	8
11 to 15 years	2	3	5
Over 15 years	7	0	7
CPA/CA qualifications			
Yes	7	8	15
No	4	4	8
Training in negotiation skills			
Yes	7	6	13
No	4	6	10
Firm size			
2 to 9 partners	0	3	3
10 to 25 partners	1	2	3
26 to 35 partners	0	0	0
36 to 50 partners	0	0	0
Over 50 partners	8	9	17

* *Demographic information was not supplied by one subject.*
Statistical tests revealed no significant differences in responses based on the above demographic variables.

3.4 METHODOLOGY

The sorting task used in this research requires participants to make discriminators as to the similarities and differences among the tactics (stimuli). Psychological research shows that all humans make discriminations along continuous dimensions (Burton and Romney 1975). Representation of judgments along continuous dimensions can be accomplished by multidimensional scaling (MDS). MDS can be used to recover continuous dimensions from sorting data.

Multidimensional scaling utilises the proximity measures between pairs of objects (Davison 1983), and can be traced to Torgerson and his 1958 work, *Theory and Methods of Scaling*, wherein he revived the concept of constructing a multidimensional scale system from unidimensional scaling methods (Borg and Lingoes 1987). Preceding Torgerson were psychophysicists Young and Householder (1938), and Guttman (1944), a psychometrician, who sought extensions of unidimensional scaling and a better understanding of the underlying structure of variables. Their work led to the development of scaling algorithms and the psychophysical and psychometric approaches to multidimensional representation of objects.

The psychophysical approach is the approach currently known as MDS; while the psychometric approach is labelled as “smallest space analysis” (Van Deun and Delbeke 2000) or similarity structure analysis (SSA is used to denote both these terms)

(Borg and Lingoes 1987). According to Borg and Lingoes (1987), MDS is merely a “special case of SSA”. By the 1980s, the number and variety of models and methods and applications of MDS within different fields had escalated (Carroll and Arabie 1980). No longer serving only the fields of marketing and psychology, MDS has also been of interest and use to such disciplines as chemistry, econometrics, political science, organisational science, sociology, accounting, and archaeology .

MDS is also known as “perceptual mapping” (Hair et al. 1998). It exposes the “hidden structure” of data bases, and comprises a set of mathematical techniques that use proximities, or distances, of the objects to produce a spatial representation, making the data easier to understand (Kruskal and Wish 1978). Proximities is a generic term used to indicate both similarity and dissimilarity data (Groenen and van de Velden 2004) and is represented by a number (Kruskal and Wish 1978). MDS produces a geometric configuration of points, akin to that of a map, where each point corresponds to one of the objects. The physical differences separating those points reflect the subjective distances of the surveyed subjects as closely as possible (Garson 2007). It is thus that MDS makes it possible for the researcher to discover the underlying relationships between a number of objects (O'Hare 1980).

Because of the complex mathematical techniques that underlie the MDS process, researchers typically rely on computerised programs, and different computational procedures produce different results. The development of MDS has been significantly enhanced by the availability of software (Ramsay 1982), and Schiffman et al. (1981) provide an excellent comparison of the differences found among six popular MDS programs (MINISSA, POLYCON, KYST, INDSCAL, ALSCAL and

MULTISCALE). More recent software packages, such as SPSS and SAS, are provided as resources by universities, and thus have put MDS and other statistical techniques within the easier reach of research students.

MDS can be used for both metric and non-metric data, which probably explains its usefulness as a device for political and organisational fields, and others, which collect qualitative, and therefore, non-metric information. Non-metric MDS uses data on the ordinal, interval or ratio scales. Because the data in this research is ordinal, non-metric MDS has been employed.

Cluster analysis is considered a useful tool for exploring, summarising and illustrating data (Morgan 1981). It is a technique that groups objects by the similarity of their characteristics so that items within a cluster show evidence of a high level of homogeneity, while between clusters, a high external heterogeneity is exhibited (Hair et al. 1998). Hierarchical clustering is considered appropriate for samples of less than 250 (Garson 1998), and this type of analysis was used for this research.

3.5 SUMMARY

This research sought to identify the cognitive representations of tactics that auditors use when negotiating with clients over financial statement reporting issues. It followed the work of psychological researchers, McLaughlin et al.'s (1991) study of professional mediators. A pilot study involving seven audit partners resulted in a list of 38 tactics deemed to be in use by practicing auditors. Participants were asked to sort those audit negotiation tactics into similar groups and to rate each tactic on an importance scale. The number of groups formed was at the discretion of each participant.

Usable responses were received from twenty-four audit partners or audit managers with a range of auditing experience of between less than three years to over fifteen years. From the responses received, a similarities matrix was constructed. Analysis was carried out by non-metric multidimensional scaling and hierarchical cluster analysis. The objective of the analysis was to determine the underlying structure of auditors' negotiation tactics. In recognition of the auditors' responsibilities to clients and other parties, a specific aim was to establish the extent of multidimensionality of those tactics.

Chapter Four presents an analysis of the results of this research.

4 ANALYSIS AND RESULTS

4.1 MULTIDIMENSIONAL SCALING

Chapter Three proposed multidimensional scaling and cluster analysis as appropriate methods for testing interrelationships among subject responses to assess the dimensionality of negotiations. The ordinal similarities data, or proximities, yielded from the 24 responses were scaled with SPSS, version 15. A 38 x 38 similarities matrix was created by counting the number of frequencies that a tactic was paired with another across the 24 auditors. The counting was accomplished by a Visual Basic code especially written for the task. It read the Excel file into which each subject's responses had been recorded. Proximities are generally measured as dissimilarities (Davison 1983).

A dissimilarity matrix was constructed, based on one minus the Pearson product moment correlation (Van Deun and Delbeke 2000). According to Kruskal and Wish (1978), computing correlations between variables is one of the most common ways to derive a profile proximity measure. Another common way of obtaining a dissimilarity matrix when similarities have been measured originally, is to transform the matrix by deducting the frequency that a particular stimulus had been sorted with another stimulus from the number of subjects (van der Kloot and van Herk 1991; Drasgow and Jones 1979). Groenen and van de Velden (2004) advise that there are yet other ways in which to transform similarities into dissimilarities. Both similarities and dissimilarities measures were analysed, giving like results. The dissimilarities are presented in this chapter.

The SPSS Proxscal multidimensional scaling technique was used on the dissimilarities matrix to resolve the number of dimensions underlying the auditor negotiation data. In the manner of McLaughlin et al.'s (1991) study, solutions for two- to six-dimensions were stipulated. SPSS's primary output reports various measures of stress, from which to evaluate the goodness of fit of each dimension given in the solution. Each of these is used to assess the goodness of fit. It also offers a scree plot of the normalised raw stress on dimensionalities for easier interpretation of the goodness of fit. Both of these data were used in assessing the goodness of fit of each dimensional solution.

Normalised raw stress is frequently based on the Euclidean distances between rows (Groenen and van de Velden 2004) as it yields the shortest line connecting object points. The relatively high value of stress for the two dimensional solution suggests more than two dimensions. Beyond the fourth dimension (stress .003) the rate of improvement declines, suggesting a four dimensional solution. This does not support Proposition 1 which posited there would be only three dimensions in the structure of audit negotiations. However, these results do support the implicit proposal that there are more than two dimensions.

The normalised raw stress values for the two- through to six-dimensional solutions were .02141, 0.00903, 0.003, 0.00292 and 0.00163 respectively. Translating these values into Stress-I values yields values of 0.14633, 0.09501, 0.05407, 0.04187 and 0.04043 respectively for the two- through to six-dimensions. As a guide, goodness of fit of 0.05 Stress-I is considered good, with 0.025 being excellent (Wickelmaier 2003). The results indicate that four dimensions provide a good fit in representing the underlying structure of the data. Running SPSS with the stipulation of a maximum of four

dimensions resulted in a Stress-I value of 0.0499, signifying that four dimensions is a good fit. Going beyond four dimensions will always give an improvement of stress. However, the improvement is marginally similar to the case of raw stress values. This second measure of stress again supports the concept that two dimensions is an insufficient representation of an auditor's concerns.

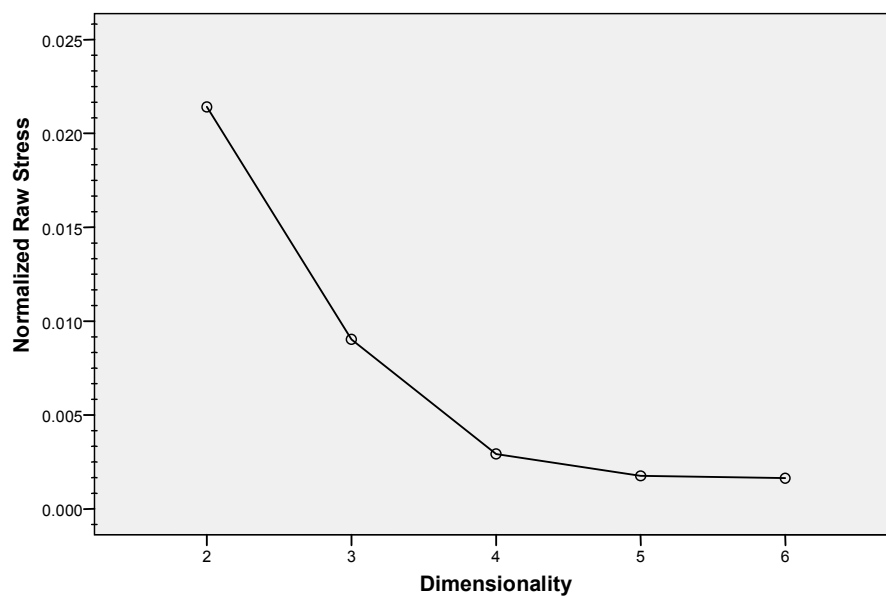


FIGURE 4-1 SCREE PLOT

These results are supported by a visual inspection of the scree plot shown in Figure 4-1. The distinct elbow at Dimension 4 supports the interpretation that this is the appropriate level of dimensions.

Chapter Two presented a three-dimensional model based on the auditors' concern for self, client and others. Based on this model, a three-dimensional solution was

forced. This resulted in a value of 0.086 for Stress-I, which is considered less than a good measure of fit, though still a fair measure (Wickelmaier 2003; Kruskal and Wish 1978). Although it is easier to graphically depict a three-dimensional solution than a four-dimensional one, analytical evidence shows that a four-dimensional solution is a better representation of the structure of the data of this research.

Figure 4-2 presents a scatter plot of the tactics configured to four dimensions. Kruskal and Wish (1978) advocate Shepard's (1974) advice to use a two-dimensional plot if it already displays the most important and interesting aspects of a higher-dimensional space, because it is easier to understand and to explain. As a four-dimensional configuration is quite difficult to depict both visually and mentally, a two-dimensional solution is presented here at Figure 4-2. The final coordinates for the four-dimensional solution are attached at Appendix B.

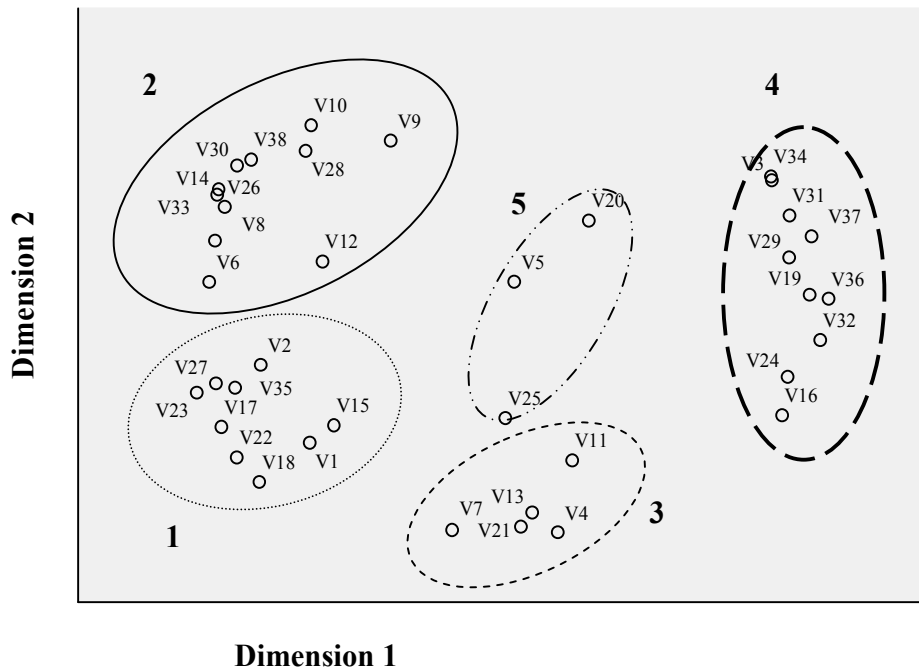


FIGURE 4-2 MDS DISPLAY OF AUDITORS' TACTICS IN TWO DIMENSIONS

Legend:

Group 1 "Contextual"	Group 2 "Substantive"	Group 3 "Forcing"	Group 4 "Technical"	Group 5 "Settlement"
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We can observe five distinct groups that I have numbered 1 through to 5, tentatively labelling them "Contextual", "Substantive", "Forcing", "Technical", and "Settlement" respectively. Each group contains a number of tactics congregating close together. Such small distances are indicative of neighbourhoods or regions which may have meaning associated with other shared characteristics (Kruskal and Wish 1978).

Discovering these characteristics or dimensions is the primary purpose for testing Proposition 1.

TABLE 4-1 TACTIC GROUPINGS FROM TWO-DIMENSIONAL SOLUTION

Group 1		Group 2		Group 3		Group 4		Group 5	
Tactic	Mean (SD)	Tactic	Mean (SD)	Tactic	Mean (SD)	Tactic	Mean (SD)	Tactic	Mean (SD)
1 (C)	1.96 (.98)	6 (C)	2.41 (1.14)	4 (S)	3.43 (1.12)	3 (S)	1.87 (1.22)	5 (S)	1.74 (.96)
2 (C)	1.65 (.78)	8 (S)	2.61 (1.03)	7 (S)	3.87 (.87)	16 (S)	3.09 (1.16)	20 (S)	1.48 (.67)
15 (C)	3.17 (1.15)	9 (S)	1.78 (.74)	11 (C)	3.43 (1.24)	19 (S)	2.00 (1.00)	25 (S)	1.65 (.71)
17 (C)	2.39 (1.08)	10 (S)	2.00 (.76)	13 (S)	3.74 (1.05)	24 (S)	2.43 (1.08)		
18 (C)	1.39 (.50)	12 (S)	2.48 (.90)	21 (S)	2.83 (1.15)	29 (S)	2.00 (.80)		
22 (C)	2.91 (1.04)	14 (R)	1.17 (.39)			31 (C)	3.17 (1.15)		
23 (C)	2.22 (1.04)	26 (C)	2.17 (.98)			32 (C)	1.91 (.67)		
27 (C)	1.91 (.73)	28 (S)	3.04 (.93)			34 (C)	1.57 (.51)		
35 (C)	1.74 (.69)	30 (R)	1.52 (.59)			36 (S)	2.65 (1.23)		
		33 (R)	1.35 (.65)			37 (S)	3.09 (1.31)		
		38 (C)	2.95 (1.05)						

Tactics details: 1 Attempt to "simplify" the agenda by eliminating/combining issues; 2 Clarify the needs of the other party; 3 Discuss similar issues in other situations/settlements or patterns; 4 Point out the "costs" of continued disagreement; 5 Suggest a particular settlement; 6 Control their expression of hostility; 7 Express displeasure at their progress in the negotiations; 8 Express pleasure at their progress in the negotiations; 9 Suggest proposals that help them avoid the appearance of defeat on an issue; 10 Help "save face" for individuals; 11 Suggest a review of needs of their company/board; 12 Try to change their expectations; 13 Tell the other party they are being unrealistic; 14 Try to gain their trust and confidence; 15 Call for frequent caucuses; 16 Present your draft qualified-audit opinion on the issue to indicate the strength of your convictions if there is not compliance; 17 Help develop a framework for negotiations; 18 Keep negotiations focused on the issues; 19 Draft suitable notes to the accounts to illustrate your position and how a question of disclosure can be more acceptable to a client once they see a suggested wording in black and white (this gives them something specific to look at, rather than arguing in general terms the need or otherwise for disclosure of a matter); 20 Make substantive suggestions for compromise, if within the law and accounting standards; 21 Press them hard to make compromises; 22 Control the timing or pace of negotiations; 23 Keep the parties at the table and negotiating; 24 Tell them that their position is against spirit of the relevant accounting standard; 25 Argue your case to the client; 26 Use humour to lighten the atmosphere; 27 Have them prioritize the issues; 28 Take responsibility for their concessions; 29 Deal with interpretation issues in the relevant standards; normally each party readily accepts the need to comply with the law, but they sometimes have a different interpretation on what a standard or a section of the law is saying; 30 Attempt to "speak their language"; 31 Get another partner in the firm to assure the client that you are being reasonable and fair; 32 Remind the other party of the responsibility of directors to ensure the accounts present a true and fair view; 33 Develop rapport with the client; 34 Seek advice on similar cases and use to support your case; 35 Attempt to settle simple issues first; 36 Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position; 37 Bring in other partners/accountants not directly involved in the audit to support your position; 38 Let them blow off steam in front of me.

The bracketed letter following the tactic number refers to its assigned category: C = Contextual, R = Reflexive, S = Substantive.

Auditors consider the tactic (14) “Try to gain their trust and confidence” is the most important¹¹ tactic. This tactic was rated either 1 “Very important”, or 2 “Important” by every auditor (the mean rating was 1.17). The second most important tactic is “Develop rapport with the client” (tactic 33). “Keep negotiations focused on the issues” (tactic 18) was rated third highest importance. Appendix C provides descriptive statistics for the tactics.

Table 4-1 provides a summary of the tactic groupings, and shows each tactic’s mean importance ratings, standard deviation, and the category label given to each tactic by group. Group 1 (“Contextual”) consists entirely of contextual tactics. Group 5 (“Settlement”) has only substantive tactics, while group 3 (“Forcing”) is made up of four substantive and one contextual tactics. Groups 2 and 4 (“Substantive” and “Technical”, respectively) contained more substantive tactics than other types.

The distances among the tactics within a particular group can reveal important patterns in the data. The closer together they are, the less dissimilar (the more similar) they are. In Group 4, tactics 3 and 34 are almost superimposed on one another. They have the two lowest mean ratings of the group on importance ratings at 1.87 and 1.57 respectively, indicating that auditors considered them to be important, so this is one dimension which explains their similarity.

¹¹ Recall that the importance scale was 1 = Very important to 5 = Very unimportant.

Proposition 1 tested the theory that the underlying structure of the stimulus objects consists of three dimensions. The MDS results suggest that there are at least four dimensions.

According to Kruskal and Wish (1978), when choosing an appropriate dimensionality, as well as the stress value and interpretability, ease of use is important. These researchers also advise that in practice, a cleaner interpretation of dimensions, or of the configuration as a whole, is sometimes obtained by using one extra dimension beyond the dimensionality called for. Green (1975) also offers the same advice, stating that the least distortion of dimensionality occurs through overestimating, rather than underestimating the number of dimensions.

Labels for Dimensions 1 and 2, “Concern for Self” and “Concern for Client” respectively, were determined by examining the extremities of the final coordinates of the multidimensional scaling solution. Tactics at the positive end coordinates of Dimension 1 were “Express pleasure at their progress in the negotiations” (8), “Keep the parties at the table and negotiating” (23), “Try to gain their trust and confidence” (14), “Use humour to lighten the atmosphere” (26). At the negative end were the tactics “Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position” (36), “Remind the other party of the responsibility of directors to ensure the accounts present a true and fair view” (32), and “Draft suitable notes to the accounts to illustrate your position ...” (19). These tactics are representative of the auditor’s responsibility to adhere to the statutory requirements and managing the client to ensure those requirements are met. An auditor faces serious consequences with damage to reputation through audit failure.

Thus, this dimension signifies a concern for self.

The tactics assembled together at each end of Dimension 2 coordinates are “Help ‘save face’ for individuals” (10), “Suggest proposals that help them avoid the appearance of defeat on an issue” (9), “Attempt to ‘speak their language’” (30) at the positive end, and “Point out the ‘costs’ of continued disagreement” (4), “Press them hard to make compromises” (21), and “Tell the other party they are being unrealistic” (13) at the negative end. Such tactics are an indication of the level of concern for the client.

Dimension 3 coordinates suggest a concern for others. At the extreme positive coordinates are eleven substantive tactics, for example “Try to change their expectations” (12) and “Argue your case to the client” (25). Seven contextual tactics, such as “Suggest a review of needs of their company/board” (11), “Call for frequent caucuses” (15), “Have them prioritise the issues” (27), congregate at the negative extreme of Dimension 3 coordinates. According to Kressel and Pruitt’s (1985) categorisations, substantive tactics deal directly with disputed issues, and contextual tactics are those that alter the climate or conditions of the negotiation. Dimension 3 was interpreted as “Concern for Others”, recognising that professional standards regulate auditors’ attestation functions and that various external parties place reliance upon the financial statements.

The fourth dimension was interpreted as “Concern for Accounting Principles”. The tactics on the negative scale were “Suggest a particular settlement” (5), “Make substantive suggestions for compromise, if within the law and accounting standards” (20), “Attempt to settle simple issues first” (35), “Attempt to ‘simplify’ the

agenda by eliminating/combining issues” (1). The positive coordinates on this dimension held tactics that could be considered as an attempt at reining in the client’s negative attitude to the conflict with tactics “Let them blow off steam in front of me” (38), and “Control their expression of hostility” (6) at the extreme end. Further support for this label is given by the importance ratings given by the auditors for the tactics congregating at each end of the Dimension 4 coordinates. The continuum of this dimension represents tactics rated with very high importance ratings through to very low importance ratings. An auditor is obliged to comply with accounting principles, standards, and laws, and it is reasonable that this concern would influence the strategy and tactics used to achieve a suitable outcome.

Figure 4-3 provides a reasoned interpretation of the four dimensions for the 38 auditor negotiation tactics. As described earlier, explanations for each of the four dimensions were achieved through a combination of visual analysis of the groupings of tactics in a two-dimensional plot and an analysis of the tactics’ positions on the four coordinates. Auditor tactics comprise four dimensions: “Concern for Self”, “Concern for Client”, “Concern for Others”, and “Concern for Accounting Principles”.

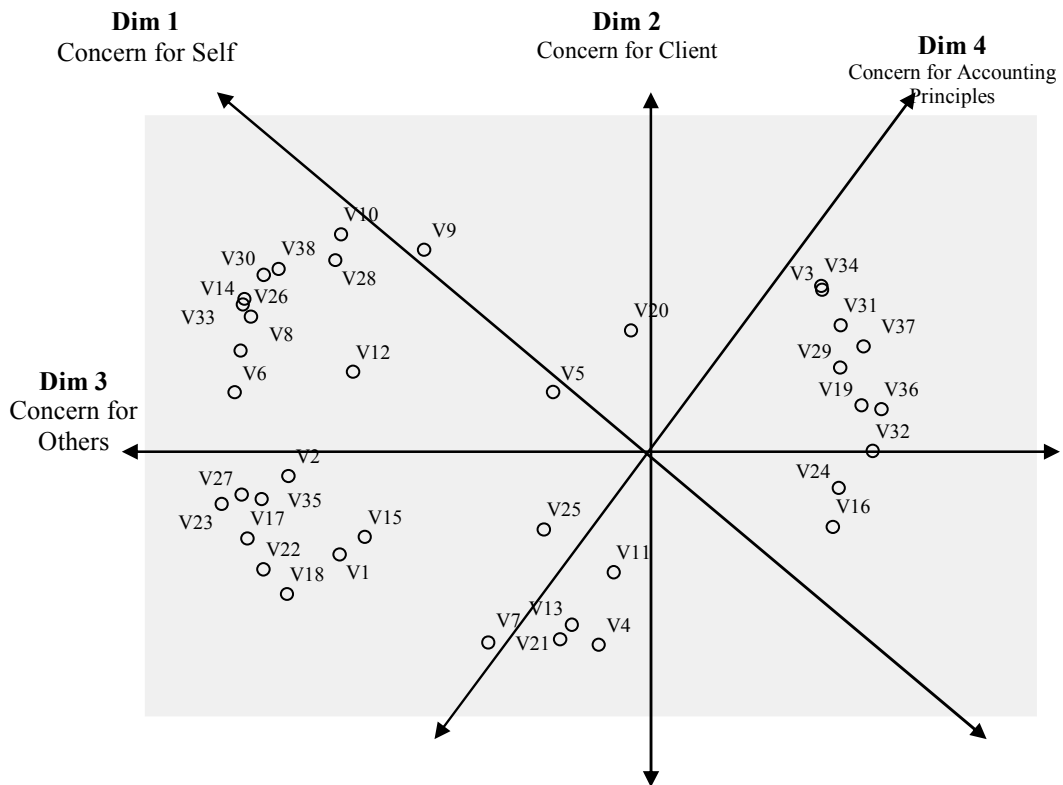


FIGURE 4-3 MDS DISPLAY OF AUDITORS' MEDIATION TACTICS WITH FOUR AXES REPRESENTING FOUR DIMENSIONS

4.2 CLUSTER ANALYSIS

The primary survey data consisted of the subjects' sortings of 38 tactics into mutually exclusive groups, and individually assigned importance ratings for each tactic. Accordingly, it was possible to determine similarity coefficients in several ways. For example, the frequencies of pairings of a tactic in a group over the 24 auditors provided a similarity coefficient, being the number of times (the count) by which individual tactics were paired by the auditors. From the resulting 38 x 38 similarities matrix, Pearson correlation coefficients were determined, which is also a measure of

similarity. Another measure of similarity was obtained by deducting the Pearson correlation coefficients from one, which produced distance measures. These were the dissimilarity coefficients which were ultimately analysed by multidimensional scaling.

A shortcoming of using the correlation coefficient as a similarity measure for cluster analysis is that it is sensitive to shape to the detriment of other differences among variables, chiefly scatter and elevation (Aldenderfer and Blashfield 1984). Scatter refers to the dispersion of scores around the mean, and elevation refers to the level or size of the mean score of the case over all of the variables (Aldenderfer and Blashfield 1984). Therefore, a correlation of +1.0 could occur without the two profiles being identical.

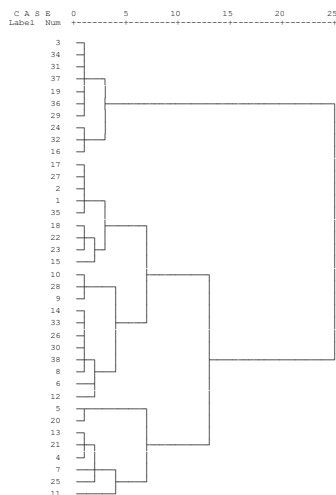


FIGURE 4-4 DENDROGRAM OF DISSIMILARITY COEFFICIENTS

Observe Figure 4-4 on the left, which is produced in miniature so that the tree structure can be examined. This dendrogram was produced using the dissimilarity coefficients based on correlation coefficients, which is produced as supplementary analysis. The most obvious factor is that tactics were merged on a very low level, indicating that similarities were found in the first steps of the clustering method, and therefore, some information about the data structure has been lost. This result

supports Aldenderfer and Blashfields' (1984) warning about the shape-sensitivity property of correlation coefficients in cluster analysis.

Consequently, the primary data were used to produce another similarity coefficient, an association coefficient¹², where similarity is established between cases according to whether or not two tactics were placed in a group. Binary coding was done for each case, as follows. For each of the 24 cases, tactics that were placed together in a group were given a code of 1, and all other tactics for that particular group were given a code of 0. The number of groups of tactics considered similar was individually determined by each auditor, which resulted in unequal groups per subject, with nine being the highest number of groups formed, and three being the lowest. This treatment eventuated in a 140 x 38 matrix, an extract of which follows at Table 4-2¹³.

TABLE 4-2 ASSOCIATION COEFFICIENT MATRIX (EXTRACT)

Ss	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38		
1000	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	0	1	1	0		
1000	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	
1000	1	0	0	0	0	1	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	1	1	0	0	1	0	0	0	0	0	0	1	0	1	0	0	0	
1000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
1000	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
1000	0	0	0	0	0	0	0	1	1	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	1	
1000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	
1000	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	1	0	0	0	0	1	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	
1000	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
2000	0	0	0	0	0	0	0	1	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0	0	1	0	0	0	0	0	
2000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	0	0	1	0	0	0	1	0	0	
2000	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	1	0	0	1	0
2000	0	1	0	0	0	1	0	1	0	0	0	0	0	0	1	0	1	1	0	0	0	1	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	
2000	1	0	0	0	1	0	0	0	0	0	0	1	0	0	0	1	0	0	1	1	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	1	0	0	0	
2000	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
2000	0	0	0	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
3000	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	0	0	0	
3000	1	1	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
3000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	0	0	0	
3000	0	0	1	0	1	1	0	0	0	0	1	1	0	0	0	0	0	0	0	1	0	0	1	1	1	1	0	0	0	0	0	1	0	0	0	0	0	1		
3000	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	1	1	0	
3000	0	0	0	1	0	0	1	1	1	0	0	0	0	0	1	0	0	1	1	0	1	1	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	

12 Association coefficients have been called “resemblance coefficients”, and association matrices “resemblance matrices” – see (Romesburg 1984).

13 Note that the numbers in the Ss column (1000, 2000, etc) refer to the identification code which I gave to each auditor and have no other meaning.

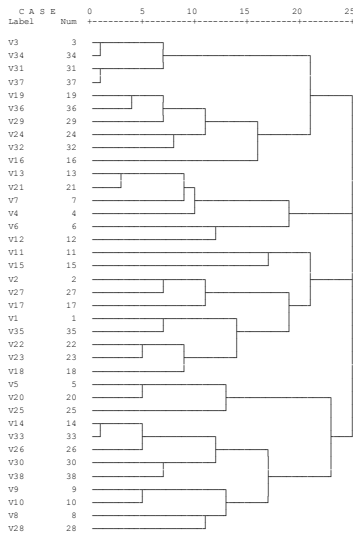


FIGURE 4-5 DENDROGRAM OF ASSOCIATION MATRIX

This association matrix formed the basis of cluster analysis procedures, which used the hierarchical cluster analysis under the “Classify” analysis option in SPSS. Like McLaughlin et al. (1991), the complete-linkage procedure (the furthest neighbour option) using the squared Euclidean distance to measure similarities was found to provide the clearest, most interpretable solution. The full results of this analysis are displayed in the dendrogram following at Appendix D, and Figure

4-5 shows its miniature for convenience. It is apparent that similarities other than shape were instrumental in this clustering solution, especially if compared to the Figure 4-4 solution.

Cluster analysis determined four primary groups: Appeal to Authority, Forcing/Asserting, Contextual, and Facilitating, within which twelve subgroups could be discerned. This result is apparently typical of the hierarchical cluster analysis method used for analysis, as according to Garson (1998) in this method “larger clusters created at later stages may contain smaller clusters created at earlier stages of agglomeration.”

Recall that five distinct groups were depicted in the MDS results portrayed in a two-dimensional plot. These groups match up well with the clustering solution. MDS Group 1, tentatively labelled “Contextual”, contained nine tactics (1, 2, 15, 17, 18, 22, 23, 27, and 35) and all of these tactics collected together in the clustering analysis. The clustering solution, also labelled “Contextual” contains only one additional tactic, number 11: “Suggest a review of needs of the company/board”. In the MDS

solution, tactic 11 clumped together with tactics 4, 7, 13, and 21 to form Group 3.

There were eleven tactics in MDS Group 2, tentatively called “Substantive”: 6, 8, 9, 10, 12, 14, 26, 28, 30, 33, and 36. This grouping exhibited the greatest variance with the cluster solution group, termed “Facilitating”. Two tactics in the MDS Group 2 (6 and 12) came together with the “Forcing/Asserting” cluster group. Also, three additional tactics (5, 20 and 25), which were not interpreted as belonging to Group 2, but rather, were considered to be a group of their own (Group 5, tentatively named “Settlement”) combined as part of the primary “Facilitating” cluster group. Finally, MDS Group 4, tentatively given the label of “Technical”, perfectly matched the cluster that was named “Substantive”.

Further, two subclusters within the Forcing/Asserting cluster were discerned. The first being quite forceful and relating to auditors’ attempts to move the client off a committed position: “Tell the other party they are being unrealistic” (13); “Press them hard to make compromises” (21); “Express displeasure at their progress in the negotiations” (7); and “Point out the ‘costs’ of continued disagreement” (4). The second subgroup contained less blatantly forceful tactics: “Control their expression of hostility” (6); and “Try to change their expectations” (12).

The Contextual cluster suggested four subgroups, two of which contained single tactics. These two were tactic 11, “Suggest a review of needs of their company/board”; and 15, “Call for frequent caucuses”. The other two groups appear to be split along the lines of getting the underlying framework of the negotiation organised (i.e., “Clarify the needs of the other party” (2); “Have them prioritise the issues” (27); and “Help develop

a framework for negotiations” (17)), and then those pertaining to the negotiation process itself (i.e., “Attempt to ‘simplify’ the agenda by eliminating/combining issues” (1); “Attempt to settle simple issues first” (35); “Control the timing or pace of negotiations” (22); “Keep the parties at the table and negotiating” (23); and “Keep negotiations focused on the issues” (18)).

The last cluster, named “Facilitating”, held three subgroups. Tactic 5: “Suggest a particular settlement”, 20: “Make substantive suggestions for compromise, if within the law and accounting standards” and 25: “Argue your case to the client”, relate to specifying a specific end result. The second subgroup suggests attempting to develop trust and empathy with the client: “Try to gain their trust and confidence” (14); “Develop rapport with the client” (33); “Use humour to lighten the atmosphere” (26); “Attempt to ‘speak their language’” (30); and “Let them blow off steam in front of me” (38). The third subcluster focuses on the client’s esteem (by saving face): “Suggest proposals that help them avoid the appearance of defeat on an issue” (9); “Help ‘save face’ for individuals” (10); “Express pleasure at their progress in the negotiations”(8); and “Take responsibility for their concessions” (28).

In summary, cluster analyses were successful in organising the auditors’ data into four meaningful groups, and suggest that more specific subclassifications are possible. According to general negotiation literature, and the McLaughlin et al. (1991) paper in particular, the tactics used in a negotiation depend upon the circumstances of the dispute. Sullivan and O’Connor (2003) inform that the structure of the task being undertaken will determine the combination of skills and tactics used during a negotiation. It is therefore possible that the different groupings of tactics might

come into play at different times during the negotiation, or for different types of issues, or different types of clients, or for different firm environments and economic situations.

4.3 SUMMARY OF THE RESULTS

MDS and hierarchical cluster analysis are often considered as complementary methods for highlighting different features of the stimuli (Davison 1983), although there are fundamental differences between the two methods. In cluster analysis, one often cannot express the relationship between the proximity data and the distances by a linear function, whereas it is possible in MDS. MDS produces spatial distances and the coordinate dimensions are continuous variables. In cluster analysis the variables are discrete. Cluster analysis classifies objects based on similarities, and constructs a tree structure which evolves as similar objects are merged with others. Despite this, the two procedures produced consistent results, both indicating that auditors' perceptions of audit tactics had a recognisable underlying structure. A benefit of this study is that the structures represent the auditors' own conceptualisations of the audit tactics, rather than that of a researcher.

The four-dimensional solution achieved with MDS represents the spatial coordinates of the tactics, i.e., their relative relationship in space according to how similar (or different) two objects are. MDS helps one to visualise the dissimilarity matrix, and although a four-dimensional solution is impossible to visualise in the ordinary sense (Kruskal and Wish 1978), a two-dimensional plot can be used to highlight interesting proximities. Conversely, a mathematical representation of a four-dimensional space presents no problems in visualisation and Appendix B contains the final coordinates for this

solution.

The distance measures were scaled by Proxscal, an SPSS scaling procedure. The Stress-I values and scree plot output indicated that the audit tactic data consisted of four dimensions. These dimensions were named: “Concern for Self”, “Concern for Client”, “Concern for Others”, and “Concern for Accounting Principles”. The association matrix constructed from binary data was subjected to hierarchical cluster analysis using the furthest neighbour protocols. This process produced four main classifications of tactics: “Contextual”, “Facilitating”, “Forcing/Asserting”, and “Substantive”. Within these four main categories, twelve subcategories were observed. Overall, the results of both types of analysis produced results with remarkable correspondence.

4.4 DISCUSSION AND IMPLICATIONS

Examining the solutions produced by MDS and cluster analysis reveals numerous similarities. MDS analysis identified four dimensions, which were named: “Concern for Self”, “Concern for Client”, “Concern for Others”, and “Concern for Accounting Principles”. Note that the labelling of these dimensions is a subjective decision, and another researcher might choose other terms.

The four dimensions summarise the cognitive judgments of a group of professional auditors and represent the categorisation of auditor tactics in terms of their strategic similarities. The relative importance of each dimension depends upon the characteristics of the auditor and may also depend on the characteristics of the disputed issue. This is not surprising. If one examines the auditors’ ratings of importance for each tactic, some distinct variances are evident at that basic level of analysis.

Large standard deviations (>1.2) occurred on four tactics (3, 11, 36, 37), and small standard deviations ($<.775$) occurred on twelve (9, 10, 14, 18, 20, 25, 27, 30, 32, 33, 34, and 35) of the 38 tactics.

In determining names for the four dimensions, a decision must be made upon the placement of the four axes. The direction of coordinates is an arbitrary decision (Kruskal and Wish 1978), and another researcher could well determine different locations.

McLaughlin et al. (1991) found three dimensions in their study, but of the 36 tactics they used, only 29 were included in this current research. Nine of the tactics in this current research were audit-specific, having been included at the suggestion of practicing auditors. These nine tactics were mostly classified as substantive. MDS grouped these together with another tactic in the area that I deemed as high Concern for Others. All ten tactics here had negative or low positive values on Dimension 3¹⁴. Dimension 1 coordinates on all other tactics had values ranging between $-.2048$ and $.6321$. Tactics with positive values on Dimension 1 are found in the groups temporarily named “Substantive” (Group 2) and “Contextual” (Group 1) at the left of the plot, near the area deemed as low Concern for Others, and low Concern for Self. The groupings of the tactics within these dimensions match up with the major categories of tactics obtained through cluster analysis.

¹⁴ The final coordinates can be examined at Appendix B.

Cluster analysis determined four primary groups: Substantive, Forcing/Asserting, Contextual and Facilitating, within which 12 subgroups could be discerned. This type of result is typical of the hierarchical cluster analysis method used for analysis. According to Garson (1998) in this method “larger clusters created at later stages may contain smaller clusters created at earlier stages of agglomeration.”

There are twelve subclusters within the primary four clusters, and when considering the neighbourhood interpretations of the MDS solutions, there are similarities with the merging of the clusters. Tactics 3, “Discuss similar issues in other situations/settlements or patterns” and 34, “Seek advice on similar cases and use to support your case” are almost superimposed on each other in the MDS solution¹⁵, these grouped at the first step in the cluster analysis. Similar occurrences are observed for tactics 14, “Try to gain their trust and confidence” and 33, “Develop rapport with the client”; and 31, “Get another partner in the firm to assure the client that you are being reasonable and fair” and 37, “Bring in other partners/accountants not directly involved in the audit to support your position”. However, these tactics are likely to be considered similar even by non-auditors as they contain similar wording or are obviously relating to the same thing.

A more interesting finding is how tactics grouped at a higher level and I give as an example the merged tactics 14 and 33 just mentioned, which joined tactic 26, “Use humour to lighten the atmosphere” at stage 7¹⁶, and then further merged with tactic 30,

15 Group 4 – “Technical”

16 The Agglomeration Schedule is included at Appendix D.

“Attempt to ‘speak their language’” at stage 22. At the time of joining stage 7, 24 out of the 38 tactics had not merged with any other tactic, indicating that tolerance for their differences was not relaxed until later in the merging process (Romesburg 1984).

The last tactics to merge with any other tactic were 11, “Suggest a review of the needs of the company/board”, and 15, “Call for frequent caucuses”. These two tactics, to which had been ascribed as being subgroups of one in the Contextual group, did not pair up until stage 28 out of a 37 stage process, indicating their relative dissimilarity. It is noted that these tactics were mostly rated as neither important nor unimportant by the auditors, which suggests that they do not form part of an auditor’s normal techniques to resolve an audit dispute.

These results illustrate the unique role of an auditor. Technically the auditor is remunerated by the company and is a control over management, yet the auditors’ responsibility is to the shareholders and not the management with whom they negotiate. Auditors are likely to desire a continuing relationship with the party with which they are in dispute. Their resolution of the issue of the dispute is bounded by professional accounting standards, GAAP and Corporations Law, and they face the risk of reputation and economic damage if a negotiation fails to achieve an appropriate outcome. Overriding all these is the burden of protecting the economic well-being of the client-firm and numerous other parties, for example, managers, employees, investors, creditors, governments. Finally, auditors have a mandate to maintain independence.

The tactics that auditors use to resolve such conflicts have been identified and classified into four groups. The selection of tactics within those groups depends on the

auditors' orientation towards resolving the dispute. An auditor's orientation is not two-dimensional. Four dimensions have been found: concern for self, concern for the client, concern for others, and concern for accounting principles. This research has determined that the dual concern model is an inadequate portrayal of auditors' orientations when resolving reporting issues with their clients, as is the three-dimensional model.

5 CONCLUSIONS AND DISCUSSION

5.1 INTRODUCTION

Chapter Three presented a theoretical model of auditor negotiation. Three propositions were developed and tested using a research design based on a sorting task by expert audit negotiators (partners and managers). Table 5-1 lists those propositions, the tests based on the research design, and the conclusions with respect to the three propositions.

TABLE 5-1 PROPOSITIONS, TESTS, CONCLUSIONS

Proposition	Test	Conclusions
1. Three dimensions underlie the strategic choices of an auditor in dealing with a dispute with a client manager.	The number of dimensions at MDS Stress-I goodness of fit measure .5 is equal to three.	The number of dimensions at Stress-I of .5 is four. The proposition is not supported.
2. Auditors use the strategies that are: Accommodating, Compromising, Forcing/Asserting and Problem Solving.	Clustering of auditor negotiation tactics.	Auditors use four negotiation styles/strategies as are found in the previous negotiation literature. They use strategies of: Accommodating, Compromising, Forcing/Asserting and Problem Solving. They do not use an avoidance strategy. The proposition is supported.
3. The tactics that auditors use to resolve an audit conflict situation comprise four groups: Appeal to Authority, Forcing or Asserting, Contextual and Facilitating.	The content of the clusters.	Auditors use tactics that can be categorised into: Appeal to Authority, Forcing or Asserting, Contextual, and Facilitating. The proposition is supported.

The research findings are summarised in Figure 5-1.

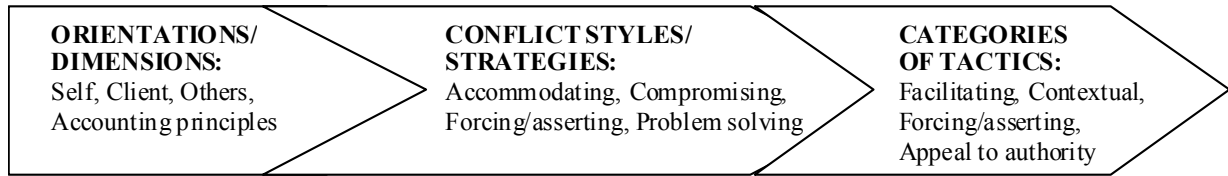


FIGURE 5-1 SUMMARY OF RESEARCH FINDINGS

This chapter summarises the research design, findings, examines the limitations of the research, and discusses the implications of the study for audit practice, education, and research. The chapter proceeds as follows. Section 5.2 summarises the research objectives, the approach, and the analysis. Section 5.3 discusses the results and the conclusions reached. Section 5.4 examines the research limitations and their implication for the validity and generalisability of the research results. The research implications are addressed in section 5.5. The final section summarises the chapter.

5.2 SUMMARY OF THE RESEARCH DESIGN

A demand for an auditor's services hinges upon their reputation in detecting and reporting material misstatements in their clients' financial statements. In forming their opinion, an auditor frequently engages in negotiations with the client in order to arrive at a desired outcome. Auditors use common tactics in dealing with a client conflict situation about financial reporting issues. A panel of seven audit partners identified 38 tactics that auditors use. This research sought to determine auditors' cognitive representations of those tactics. Practicing audit partners and managers performed a sorting task on the 38 tactics, also rating each tactic on an importance scale.

The objective of this research was to determine whether the tactics auditors use had a discernible structure. Multidimensional scaling and cluster analysis successfully defined the underlying configurations of those tactics.

5.3 DISCUSSION OF THE RESULTS AND CONCLUSIONS

This research determined that the dual concern model of conflict management styles prevalent in the behavioural research is inadequate when applied to an auditor's negotiation context. The proposition that auditors' responsibility to external parties apart from their clients suggests a three-dimensional model of concern was also rejected. This research found that the tactics auditors use in an audit negotiation comprise four dimensions and belong to four main categories.

Four negotiation or conflict handling styles/strategies found in previous negotiation literature apply to auditors: accommodating, compromising, forcing/asserting, and problem solving. The nature of an auditor's engagement excludes the strategic choice of avoiding.

There are 38 common tactics that auditors use. These tactics contain four major classifications, "Facilitating", "Contextual", "Forcing/Asserting", and "Appeal to Authority". Within these four groupings, twelve recognisable subgroups exist. Auditors use tactics from these four classifications depending on the strategy they have chosen with which to negotiate. That strategic choice depends upon their motivational orientation and the importance of the issue. For example, a forcing/asserting tactic, such as "Tell the other party they are being unrealistic", is more likely to be used by an auditor using a forcing/asserting strategy. The auditor chooses to use a

forcing/asserting strategy because they have less concern for the client than they have for other parties or their own self, or because of the importance placed the issue.

5.3.1 INTERPRETATION OF THE DIMENSIONS

The significant contribution of this research is in identifying four dimensions to the negotiation orientation of professional auditors. While most of the psychology literature focuses on the two-dimensional dual concern model there is limited support for a three-dimensional model of motivational orientations. Kleinman and Palmon (2000) suggested that adding a third dimension to the Blake-Mouton (1964) conflict grid would provide a more adequate conceptualisation of the auditor's inter-relationships. This research initially supported the view that an auditor's concerns are of three dimensions, concern for self, concern for client, and concern for others.

While the statistical results show four dimensions, by default, it also supported the third dimension, "concern for others" proposed in the theoretical model in Chapter Two. An auditor enters a negotiation about an accounting issue charged with obligations not just to their client, but also to external parties. Numerous other parties, such as investors, the client's employees, governmental bodies, and the general public, may have their economic well-being affected if auditors fail in their duties to oversee the truth and fairness of the financial reports. The auditor's legal responsibilities suggest that concern for others is their primary concern.

Bame-Aldred and Kida's (2007) research decided that differences in the responses of auditors and clients were due to their different professional responsibilities. While management aims to maximise their shareholders' value, auditors are cognisant

of the dangers of breaching professional responsibilities. Auditors, therefore, are likely to place a higher focus on accounting standards and GAAP than their client-managers. In the audit context, the four-dimensional model reflects an additional dimension – “concern for accounting principles”. It is possible that in all specialist domains, such as auditing, a similar fourth dimension may also exist. However, in audit this dimension is compelling as accounting standards have the force of law behind them.

5.3.2 INTERPRETATION OF THE CATEGORIES OF TACTICS

The implicit assumption in the analysis of a sorting task is that representations of judgments show continuous dimensions. Figure 4-2 showed the dimensions of auditor negotiations as resulting from the application of MDS. Cluster analysis allowed a more detailed analysis of the structure of the categories of negotiation tactics.

This research found four categories of tactics. However, the nomenclature used in the psychology/negotiation literature is not representative of the language of the audit profession. The naming of categories is essentially a subjective undertaking. With this caveat, the cluster solution as shown in the Dendrogram at Appendix D, have been named as Appeal to Authority, Forcing/Asserting, Compromising, and Facilitating. It is evident by examining the multidimensional scaling solutions in a three-dimensional configuration for all combinations of the four dimensions, that Appeal to Authority category is closely associated with the accounting principles dimension.

5.4 LIMITATIONS

In this section, the limitations of this study and an assessment of their impact upon the results are reviewed. Cook and Campbell (1979) identify four general threats

to the validity of research conclusions for experimental and quasi-experimental designs: statistical validity, internal validity, construct validity, and external validity. The limitation of this research is structured accordingly.

5.4.1 THREATS OF THE VALIDITY OF THE STATISTICAL CONCLUSIONS

Statistical validity examines the statistical threats to the relationships between two variables. In this research, the focus was on determining the relationship between auditor tactics and their underlying structure. The multidimensional scaling techniques and cluster analysis used to analyse the auditors' response data raises certain problems for the researcher. Multidimensional scaling techniques are frequently used to discover latent structure rather than to obtain a precise fitting of a model to data (O'Hare 1980). Therefore, the conclusions drawn from MDS analysis are subjective, warranting prudence by researchers in their claims (Watkins 1984).

The clustering method used will produce different results on the same data. For example, output from the farthest-neighbour method displays the data in long, elongated clusters. Figure 4-5 is an example of this. Clusters produced by the complete-linkage will be more tightly compact, as in figure 4-4. As the farthest-neighbour method is considered an accepted data analysis method for sorting judgments (Friendly 1977), those results were retained for interpretation.

5.4.2 THREATS TO INTERNAL VALIDITY

Campbell and Stanley (1963) advise that various threats exist that jeopardise the ability of the researcher to attribute causality between dependent and independent variables. In

this research, the effects of history and maturation can be excluded because the nature of this study was sorting judgment.

Auditors were asked to rate the 38 tactics on an importance scale. Self-reporting bias, an internal validity threat, might have influenced their responses. This would have occurred if the subjects reported what they think makes them appear more favourable, rather than their actual beliefs. Internal validity may also have been prejudiced because auditors might have responded with a specific or recent auditor-client interaction in mind, and they might have treated the stimulus data another way at another point in time.

The results may have been affected by selection bias because of the small sample response and the nature of the people who responded might not be representative of the general population.

5.4.3 THREATS TO CONSTRUCT VALIDITY

Construct validity concerns confounding that may occur in the measurement of effects, and is *the possibility that operations which are meant to represent a particular cause and effect can be construed in terms of more than one construct* (Cook and Campbell 1979 p.59).

No prior research has established the tactics that auditors use in negotiations with their clients. The tactics presented in the instrument for sorting were determined by seven professional auditors who reviewed the 36 professional mediators' tactics from the psychological research of McLaughlin et al. (1991). Their opinions determined the

selection of the tactics for elimination and insertion. This may have biased the results.

5.4.4 THREATS TO EXTERNAL VALIDITY

Although the nature of this research is exploratory, a larger sample size would have provided a better depth of knowledge about auditors' cognitive representations of audit tactics. It is possible, also, that the results of this study are anomalous due to sampling error, and therefore, the veracity of the audit tactic structure found here can only be determined by a replication of the study with an independent sample. Given that the seven auditors used to develop the inclusions and deletions in the instrument were from eastern Australia, the results may have been biased in terms of their generalisability outside the Australian environment.

There were some fundamental differences in the survey instrument in this study and that of McLaughlin et al.'s (1991) paper. Apart from our introduction of nine specific audit tactics and the dropping of seven tactics relating specifically to professional mediators, the others were tailored to present an audit perspective. In this way, it was possible to focus on the specificity of the audit task, rather than general negotiation tactics. While the auditors were asked to rate each tactic on the importance scale, data were not obtained on scales of friendly-unfriendly, assertive-passive, controlling-uncontrolling, use frequently-use infrequently, and effective-ineffective, hence restricting the richness of this study. Analysis would also have benefited if subjects were asked to report any other tactic that they use that was not included in the list provided and provide similar ratings.

5.5 IMPLICATIONS FOR FUTURE RESEARCH

A short-coming of the dual concern model was described by Rhoades and Carnevale (1999) as its inability to predict the interactions between the motivational orientation of the negotiator and the opponent's behaviour. They examined the impact of various behavioural contexts and the matching of the parties' reactions to those scenarios, using individual tactics rather than the higher level of strategies or strategic motivations or intent. They reasoned that strategies are comprised of individual tactics and that the opponents' actions and reactions cause substantial behavioural variation and adjustment to tactics in order to shape the other's behaviour. In doing so, the negotiators may use motivationally inconsistent tactics as the negotiation progresses.

Rhoades and Carnevale (1999) put forward that over the course of a given negotiation, the behavioural strategies of both parties are incoherent, and therefore, the motivational predictions of the dual concern model cannot be supported. Most of the audit negotiation behavioural research has been carried out at the strategy stage, and using the dual concern model.

This study has provided a list of tactics that are in use by professional auditors in negotiating accounting disputes with their clients. Weingart et al. (1996) reasoned that negotiators who are provided with a written description of a set of negotiation tactics are able to use those descriptions to obtain new knowledge or to cue existing knowledge that results in predictable behaviour and promote the most favourable outcomes. The

possession of a menu of tactical descriptions provides a wider selection of behaviour that could be used in the negotiation process.

If an expanded replication of this study produces similar results, the resulting knowledge will be advantageous to auditors for training and development purposes. Knowledge of the structure and classification of audit tactics would be valuable in honing auditors' skills in negotiating with their clients.

This research did not directly consider the contingency approach and the fact that auditors are likely to use different tactics in different situations. For example, if there are no going-concern issues, then the auditor is likely to place emphasis on different dimensions than if the company was in a situation of financial risk. Similarly, an auditor whose client is involved in an industry undergoing great changes would be likely to accent other dimensions than if the client's industry was stable. Figure 5-2 illustrates the possible dimensions for four contingent situations.

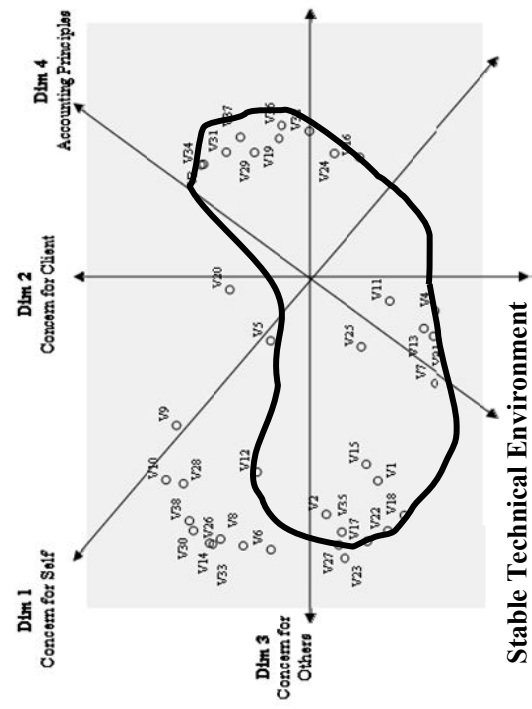
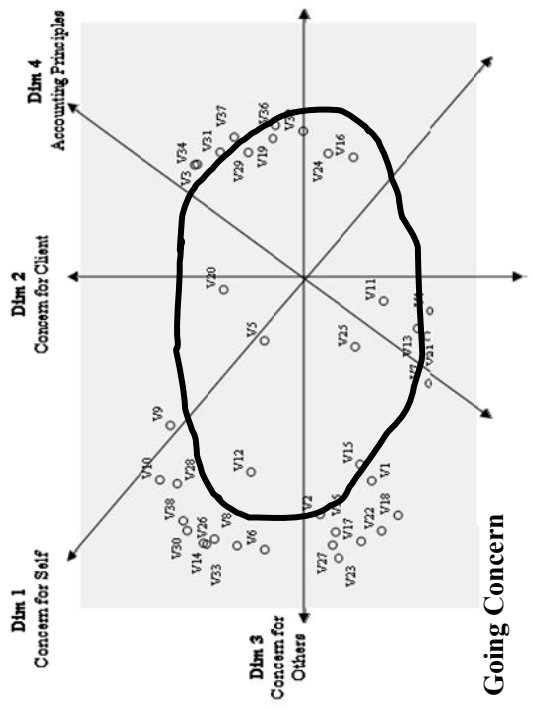
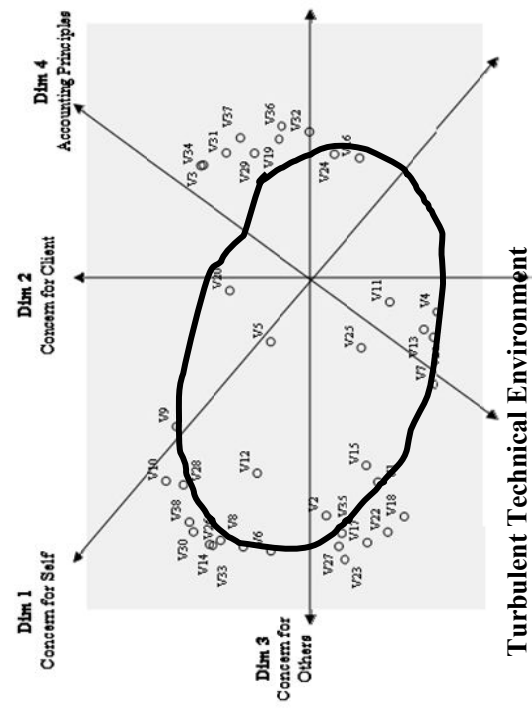
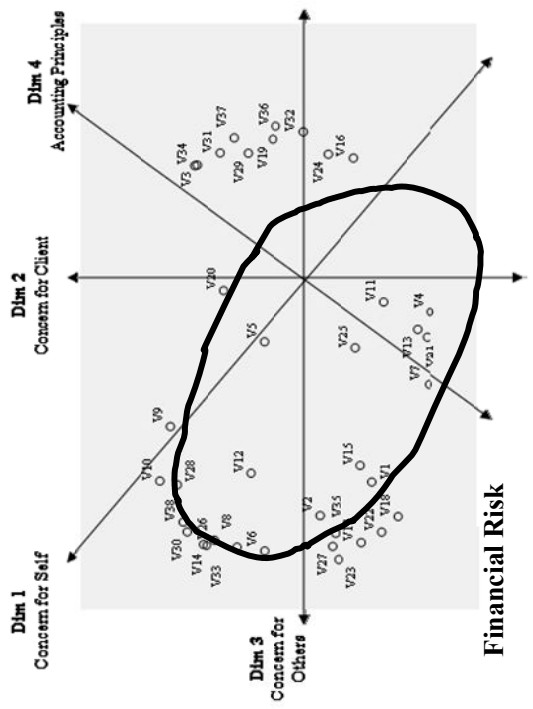


FIGURE 5-2 CONTINGENCY APPROACH

5.6 SUMMARY

This chapter summarised the research on auditor orientation, strategies, and tactics in audit negotiation. It commenced by presenting the three propositions, their tests and the conclusions so drawn. Multidimensional scaling and cluster analysis provided support for two of the three propositions. The research design was summarised at section 5.2. Auditors were asked to sort a list of 38 audit-specific negotiation tactics into mutually exclusive groups, based on their perceived similarity, and to rate each tactic on an importance scale.

In section 3, the results of multidimensional scaling and cluster analysis were discussed and the findings were interpreted. Auditors use tactics that comprise four dimensions: “concern for self”, “concern for clients”, “concern for others”, and “concern for accounting principles”. These dimensions are also known as motivational orientations. Proposition 1 was not supported because it put forward that there would be three dimensions of concern.

The strategies or conflict handling styles that auditors use are those found in the general negotiation literature with one exclusion. General negotiation literature identifies five strategic choices or styles: accommodating, compromising, forcing/asserting, problem solving and avoiding. This research concludes that auditors use the first four styles, but do not use the avoiding strategy because of the nature of their obligations. These findings supported Proposition 2.

This research found that the 38 tactics that auditors use fall into four classifications:

facilitating, contextual, forcing/asserting, and appeal to authority, supporting Proposition 3.

The limitations to the research in terms of threats to the validity of the statistical conclusions, internal validity, construct validity, and external validity were explained in section 5.4.

In section 5.5, the implications and directions for future research were provided. This research has expanded current knowledge fundamental to the audit discipline and to that of conflict management in general. It will be beneficial to practicing auditors and for the education of auditors.

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7 APPENDICES

APPENDIX A STIMULUS TACTICS AND CORRESPONDING CATEGORY LABELS

	Tactics	Category Label
1	Attempt to "simplify" the agenda by eliminating/combining issues	Contextual
2	Clarify the needs of the other party	Contextual
3	Discuss similar issues in other situations/settlements or patterns	Substantive
4	Point out the "costs" of continued disagreement	Substantive
5	Suggest a particular settlement	Substantive
6	Control their expression of hostility	Contextual
7	Express displeasure at their progress in the negotiations	Substantive
8	Express pleasure at their progress in the negotiations	Substantive
9	Suggest proposals that help them avoid the appearance of defeat on an issue	Substantive
10	Help "save face" for individuals	Substantive
11	Suggest a review of needs of their company/board	Contextual
12	Try to change their expectations	Substantive
13	Tell the other party they are being unrealistic	Substantive
14	Try to gain their trust and confidence	Reflexive
15	Call for frequent caucuses	Contextual
16	Present your draft qualified-audit opinion on the issue to indicate the strength of your convictions if there is not compliance	Substantive
17	Help develop a framework for negotiations	Contextual
18	Keep negotiations focused on the issues	Contextual
19	Draft suitable notes to the accounts to illustrate your position and how a question of disclosure can be more acceptable to a client once they see a suggested wording in black and white (this gives them something specific to look at, rather than arguing in general terms the need or otherwise for disclosure of a matter)	Substantive
20	Make substantive suggestions for compromise, if within the law and accounting standards	Substantive
21	Press them hard to make compromises	Substantive
22	Control the timing or pace of negotiations	Contextual
23	Keep the parties at the table and negotiating	Contextual
24	Tell them that their position is against spirit of the relevant accounting standard	Substantive

	Tactics	Category Label
25	Argue your case to the client	Substantive
26	Use humour to lighten the atmosphere	Contextual
27	Have them prioritize the issues	Contextual
28	Take responsibility for their concessions	Substantive
29	Deal with interpretation issues in the relevant standards; normally each party will readily accept the need to comply with the law, but they sometimes have a different interpretation on what a standard or a section of the law is saying	Substantive
30	Attempt to "speak their language"	Reflexive
31	Get another partner in the firm to assure the client that you are being reasonable and fair	Contextual
32	Remind the other party of the responsibility of directors to ensure the accounts present a true and fair view	Contextual
33	Develop rapport with the client	Reflexive
34	Seek advice on similar cases and use to support your case	Contextual
35	Attempt to settle simple issues first	Contextual
36	Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position	Substantive
37	Bring in other partners/accountants not directly involved in the audit to support your position	Substantive
38	Let them blow off steam in front of me	Contextual

APPENDIX B FINAL COORDINATES FOR FOUR-DIMENSIONAL SOLUTION

Final Coordinates

	Dimension			
	1	2	3	4
V1	0.2348	-0.0670	-0.4136	-0.3329
V2	0.3900	0.1756	-0.3751	-0.2828
V3	-0.7052	0.3815	-0.2157	0.0620
V4	-0.2230	-0.5804	0.0720	0.1536
V5	-0.1140	0.0315	0.2430	-0.4751
V6	0.5262	-0.1694	0.1201	0.3306
V7	0.0519	-0.4862	0.2477	0.2866
V8	0.6321	0.1145	0.1800	-0.0623
V9	0.1896	0.4531	0.2616	-0.1441
V10	0.3601	0.4919	0.1914	-0.0283
V11	-0.2048	-0.2887	-0.4931	0.1583
V12	0.3571	-0.0424	0.4119	-0.0043
V13	-0.1807	-0.5032	0.2872	0.1481
V14	0.5814	0.3020	0.0467	0.1786
V15	0.2763	-0.1765	-0.4394	0.3051
V16	-0.7709	-0.2868	0.0989	-0.0209
V17	0.5225	-0.1267	-0.2702	-0.2709
V18	0.4375	-0.3768	-0.2734	-0.1422
V19	-0.8545	0.1003	0.0675	-0.0845
V20	-0.3263	0.1837	0.2650	-0.3909
V21	-0.1336	-0.5787	0.1665	-0.0598
V22	0.5241	-0.3414	-0.1353	-0.1441
V23	0.6169	-0.2242	-0.1203	0.0036
V24	-0.8083	-0.1504	0.1114	-0.0174
V25	-0.1103	-0.2840	0.4048	-0.1642
V26	0.5720	0.1933	0.1620	0.2309
V27	0.4816	0.0351	-0.4325	-0.0906
V28	0.4079	0.3151	0.3821	-0.0144
V29	-0.7780	0.2282	0.0087	-0.1938
V30	0.4978	0.3836	-0.0501	0.2185
V31	-0.7457	0.2688	-0.1180	0.2799
V32	-0.8665	-0.0602	0.0610	0.0952
V33	0.5627	0.3151	0.0221	0.2017
V34	-0.7175	0.3807	-0.2074	0.0528
V35	0.4973	-0.0579	-0.0327	-0.3723
V36	-0.8765	0.0679	-0.1457	-0.0372
V37	-0.7955	0.2121	-0.1830	0.2239
V38	0.4912	0.1669	0.0938	0.4037

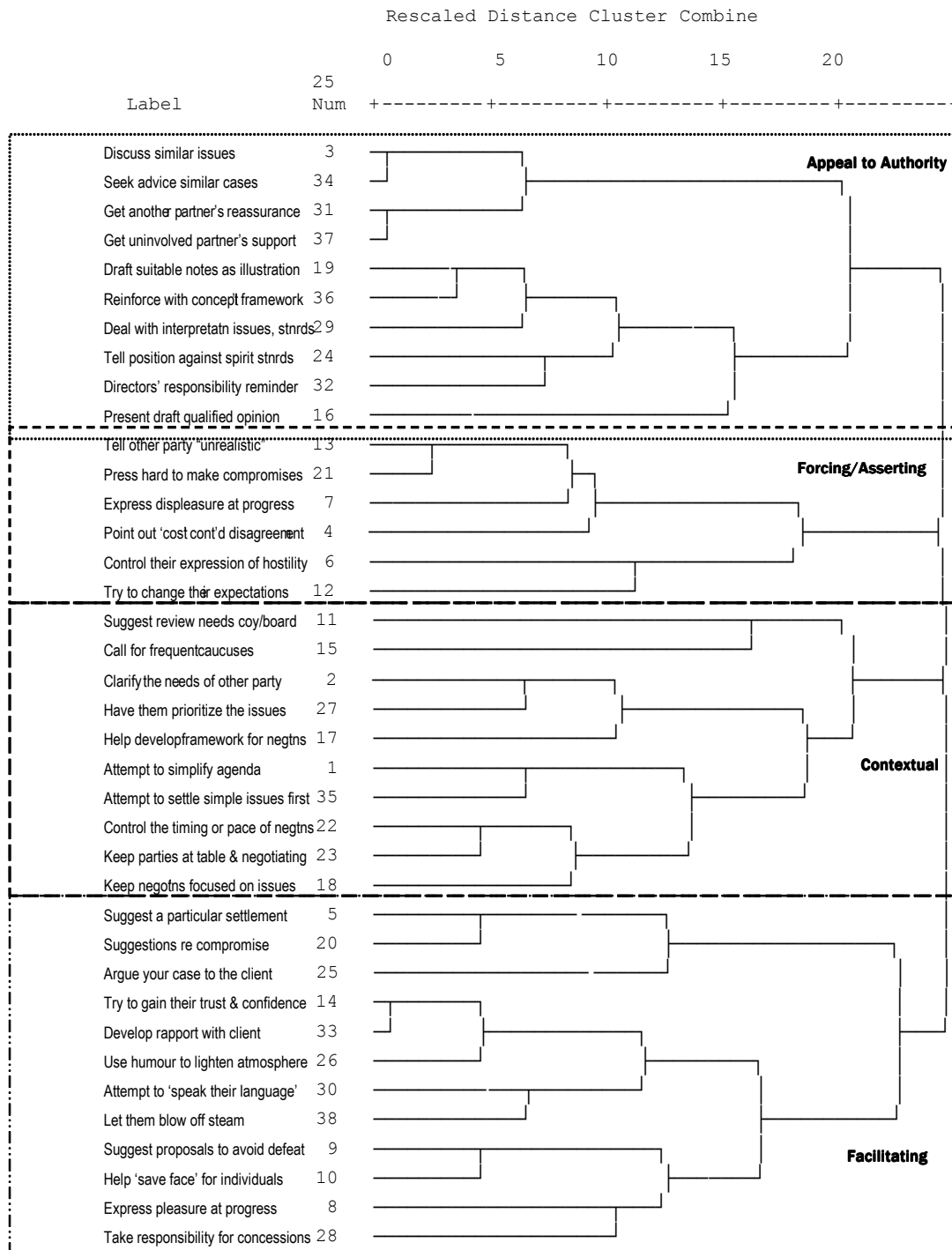
Appendix C Descriptive Statistics, Tactics

Tactic No.	Minimum	Maximum	Mean	Std. Deviation
1	1	4	1.96	0.98
2	1	4	1.65	0.78
3	1	5	1.87	1.22
4	1	5	3.43	1.12
5	1	5	1.74	0.96
6	1	5	2.41	1.14
7	2	5	3.87	0.87
8	1	5	2.61	1.03
9	1	4	1.78	0.74
10	1	4	2.00	0.76
11	1	5	3.43	1.24
12	1	5	2.48	0.90
13	1	5	3.74	1.05
14	1	2	1.17	0.39
15	1	5	3.17	1.15
16	1	5	3.09	1.16
17	1	5	2.39	1.08
18	1	2	1.39	0.50
19	1	5	2.00	1.00
20	1	3	1.48	0.67
21	1	5	2.83	1.15
22	1	5	2.91	1.04
23	1	4	2.22	1.04
24	1	5	2.43	1.08
25	1	4	1.65	0.71
26	1	5	2.17	0.98
27	1	4	1.91	0.73
28	2	5	3.04	0.93
29	1	4	2.00	0.80
30	1	3	1.52	0.59
31	1	5	3.17	1.15
32	1	3	1.91	0.67
33	1	3	1.35	0.65
34	1	2	1.57	0.51
35	1	3	1.74	0.69
36	1	5	2.65	1.23
37	1	5	3.09	1.31
38	2	5	2.95	1.05

Tactics details: 1 Attempt to "simplify" the agenda by eliminating/combining issues; 2 Clarify the needs of the other party; 3 Discuss similar issues in other situations/settlements or patterns; 4 Point out the "costs" of continued disagreement; 5 Suggest a particular settlement; 6 Control their expression of hostility; 7 Express displeasure at their progress in the negotiations; 8 Express pleasure at their progress in the negotiations; 9 Suggest proposals that help them avoid the appearance of defeat on an issue; 10 Help "save face" for individuals; 11 Suggest a review of needs of their company/board; 12 Try to change their expectations; 13 Tell the other party they are being unrealistic; 14 Try to gain their trust and confidence; 15 Call for frequent caucuses; 16 Present your draft qualified-audit opinion on the issue to indicate the strength of your convictions if there is not compliance; 17 Help develop a framework for negotiations; 18 Keep negotiations focused on the issues; 19 Draft suitable notes to the accounts to illustrate your position and how a question of disclosure can be more acceptable to a client once they see a suggested wording in black and white (this gives them something specific to look at, rather than arguing in general terms the need or otherwise for disclosure of a matter); 20 Make substantive suggestions for compromise, if within the law and accounting standards; 21 Press them hard to make compromises; 22 Control the timing or pace of negotiations; 23 Keep the parties at the table and negotiating; 24 Tell them that their position is against spirit of the relevant accounting standard; 25 Argue your case to the client; 26 Use humour to lighten the atmosphere; 27 Have them prioritize the issues; 28 Take responsibility for their concessions; 29 Deal with interpretation issues in the relevant standards; normally each party readily accepts the need to comply with the law, but they sometimes have a different interpretation on what a standard or a section of the law is saying; 30 Attempt to "speak their language"; 31 Get another partner in the firm to assure the client that you are being reasonable and fair; 32 Remind the other party of the responsibility of directors to ensure the accounts present a true and fair view; 33 Develop rapport with the client; 34 Seek advice on similar cases and use to support your case; 35 Attempt to settle simple issues first; 36 Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position; 37 Bring in other partners/accountants not directly involved in the audit to support your position; 38 Let them blow off steam in front of me.

Appendix D HIERARCHICAL CLUSTER ANALYSIS – COMPLETE LINKAGE

DENDROGRAM



APPENDIX E AGGLOMERATION SCHEDULE

Agglomeration Schedule

Stage	Cluster Combined		Coefficients	Stage Cluster First Appears		Next Stage
	Cluster 1	Cluster 2		Cluster 1	Cluster 2	
1	3	34	6.000	0	0	12
2	14	33	6.000	0	0	7
3	31	37	7.000	0	0	12
4	13	21	10.000	0	0	17
5	19	36	12.000	0	0	13
6	9	10	13.000	0	0	25
7	14	26	14.000	2	0	22
8	22	23	14.000	0	0	16
9	5	20	14.000	0	0	24
10	30	38	17.000	0	0	22
11	1	35	18.000	0	0	26
12	3	31	18.000	1	3	32
13	19	29	18.000	5	0	20
14	2	27	18.000	0	0	21
15	24	32	19.000	0	0	20
16	18	22	20.000	0	8	26
17	7	13	20.000	0	4	18
18	4	7	22.000	0	17	30
19	8	28	24.000	0	0	25
20	19	24	24.000	13	15	27
21	2	17	24.000	14	0	31
22	14	30	25.000	7	10	29
23	6	12	25.000	0	0	30
24	5	25	28.000	9	0	34
25	8	9	28.000	19	6	29
26	1	18	30.000	11	16	31
27	16	19	32.000	0	20	32
28	11	15	34.000	0	0	33
29	8	14	35.000	25	22	34
30	4	6	38.000	18	23	36
31	1	2	38.000	26	21	33
32	3	16	42.000	12	27	37
33	1	11	42.000	31	28	35
34	5	8	45.000	24	29	35
35	1	5	48.000	33	34	36
36	1	4	48.000	35	30	37
37	1	3	49.000	36	32	0

Appendix F AUDITORS' TACTICS AND NEGOTIATION STYLES/STRATEGIES

Tactics		Category Label	MCL ^a	BFB ^b	Goodwin ^c	TKI ^d	BAK ^e	K&P ^f
1	Attempt to "simplify" the agenda by eliminating/combining issues	Contextual	Contextual		Compromising	Compromising	Problem Solving	Problem Solving
2	Clarify the needs of the other party	Contextual	Contextual/Affective		Obliging	Accommodating	Problem Solving	Accommodation
3	Discuss similar issues in other situations/settlements or patterns	Substantive	Substantive				Problem Solving	Problem Solving
4	Point out the "costs" of continued disagreement	Substantive	Substantive/Forcing	Assertive	Dominating	Competing	Contentious	Forcing/Asserting
5	Suggest a particular settlement	Substantive	Substantive	Assertive			Problem Solving	Problem Solving
6	Control their expression of hostility	Contextual	Contextual/Affective		Dominating	Competing		Forcing/Asserting
7	Express displeasure at their progress in the negotiations	Substantive	Substantive/Forcing	Sanctions			Contentious	Forcing/Asserting
8	Express pleasure at their progress in the negotiations	Substantive	Substantive/Affective		Obliging	Accommodating	Contentious	Accommodation
9	Suggest proposals that help them avoid the appearance of defeat on an issue	Substantive	Substantive	Coalesce	Integrating	Collaborating	Collaborating	Problem Solving
10	Help "save face" for individuals	Substantive	Substantive/Affective	Coalesce	Obliging	Accommodating		Accommodation
11	Suggest a review of needs of their company/board	Contextual	Contextual				Contentious	
12	Try to change their expectations	Substantive	Substantive		Dominating	Competing	Problem Solving	Forcing/Asserting
13	Tell the other party they are being unrealistic	Substantive	Substantive/Forcing	Sanctions	Dominating	Competing	Contentious	Forcing/Asserting
14	Try to gain their trust and confidence	Reflexive	Reflexive/Affective		Obliging	Accommodating		Accommodation
15	Call for frequent caucuses	Contextual	Contextual		Compromising	Compromising		Compromising
16	Present your draft qualified-audit opinion on the issue to indicate the strength of your convictions if there is not compliance	Substantive			Dominating	Competing	Contentious	Forcing/Asserting
17	Help develop a framework for negotiations	Contextual	Contextual		Integrating	Collaborating		Problem Solving

Tactics		Category Label	MCL ^a	BFB ^b	Goodwin ^c	TKI ^d	BAK ^e	K&P ^f
18	Keep negotiations focused on the issues Draft suitable notes to the accounts to illustrate your position and how a question of disclosure can be more acceptable to a client once they see a suggested wording in black and white (this gives them something specific to look at, rather than arguing in general terms the need or otherwise for disclosure of a matter)	Contextual	Contextual		Integrating	Collaborating		Problem Solving
19		Substantive			Dominating	Competing	Contentious	Forcing/Asserting
20	Make substantive suggestions for compromise, if within the law and accounting standards	Substantive	Substantive	Bargaining	Compromising	Compromising		Compromising
21	Press them hard to make compromises	Substantive	Substantive/ Forcing	Sanctions	Dominating	Competing		Forcing/ Asserting
22	Control the timing or pace of negotiations	Contextual	Contextual		Dominating	Competing		Forcing/ Asserting
23	Keep the parties at the table and negotiating	Contextual	Contextual		Dominating	Competing		Forcing/ Asserting
24	Tell them that their position is against spirit of the relevant accounting standard	Substantive			Dominating	Competing	Contentious	Forcing/Asserting
25	Argue your case to the client	Substantive	Substantive/ Affective	Assertive	Dominating	Competing	Contentious	Forcing/ Asserting
26	Use humour to lighten the atmosphere	Contextual	Contextual/ Affective					
27	Have them prioritize the issues	Contextual	Contextual					
28	Take responsibility for their concessions	Substantive	Substantive	Ingratiation	Obliging	Accommodating		Accommodation
29	Deal with interpretation issues in the relevant standards; normally each party will readily accept the need to comply with the law, but they sometimes have a different interpretation on what a standard or a section of the law is saying	Substantive			Dominating	Competing	Contentious	Forcing/Asserting
30	Attempt to "speak their language"	Reflexive	Reflexive/ Affective					
31	Get another partner in the firm to assure the client that you are being reasonable and fair	Contextual						
32	Remind the other party of the responsibility of directors to ensure the accounts present a true	Contextual			Dominating	Competing	Contentious	Forcing/Asserting

Tactics		Category Label	MCL ^a	BFB ^b	Goodwin ^c	TKI ^d	BAK ^e	K&P ^f
	and fair view							
33	Develop rapport with the client	Reflexive	Reflexive/ Affective		Obliging	Accommodating		Accommodation
34	Seek advice on similar cases and use to support your case	Contextual						
35	Attempt to settle simple issues first	Contextual	Contextual		Obliging			Accommodation
36	Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position	Substantive						
37	Bring in other partners/accountants not directly involved in the audit to support your position	Substantive						
38	Let them blow off steam in front of me	Contextual	Contextual/ Affective					
a	McLaughlin Carnevale Lim (1991) tactics, that they had adapted from "The selection of mediator tactics in public sector disputes: A contingency analysis", by P.J.D. Carnevale and R. Pegnetter, 1985, <i>Journal of Social Issues</i> , 41(2), p. 73.							
b	Beattie, Fearnley and Brandt (2004).							
c	Goodwin (2002).							
d	Thomas-Kilmann Conflict Mode Instrument, as reported by Shell (2001), "Bargaining Styles and Negotiation: The Thomas-Kilmann Conflict Instrument in Negotiation Training.							
e	Bame-Aldred and Kida (2007).							
f	Kleinman and Palmon (2000).							

INSTRUCTIONS

The purpose of this research is to provide information on the strategies used by auditors in resolving disputes with their clients concerning accounting and reporting issues. The issues we address are not likely to be those that involve a direct violation of an accounting standard or a statutory requirement

Two examples of the type of dispute we believe requires negotiation skills follow. The first is a simple example.

- If, as an auditor, you feel the allowance for doubtful debts should be increased in the light of current economic conditions you may have to persuade/negotiate with the client to ensure the accounts are fair. An increase in the provision for doubtful debts is not a cut and dried issue with compelling arguments available to the client to not increase the provision or limit the amount of the increase.
- A second example involves the practice of electrical retailers of selling extended warranties - those that increase the manufacturers warranty from say two years to five years for an addition of \$100. The clients' history shows that 60% of customers buy the warranty but only 20% ever use the warranty. The client makes a provision for the estimated cost of the warranty and treats the warranty sales as current period revenue. You feel the revenue should be amortized over the warranty period. The client argues that the discounted retail price on the electrical goods is calculated on the warranty take by their customers.

These examples do not involve a breach of standard but rather disputes over the interpretation of those standards or accounting concepts or principals. The fairness of the financial statements is not always clear cut and the client requires convincing and persuading. **We seek to contribute to knowledge about the strategies/tactics used to satisfactorily resolve such disputes. Our concern is with the strategies/tactics not with any particular dispute or the right or wrongs of the dispute. We simply need to understand how to resolve disputes and maintain a proper professional relationship.**

RESEARCH BOOKLET

AUDITOR'S NEGOTIATION TACTICS WHEN

SETTLING DISPUTES WITH CLIENTS

Your responses will be combined with the those of other participants and analyzed using statistical and clustering programs. **Your contribution will remain anonymous** however you will receive a draft copy of the aggregate results should you wish. Please follow the instructions carefully.

The attached sheets of paper contain 38 possible strategies that you may use or would consider using in resolving issues with your client. The source of the 35 strategies is existing literature on dispute resolution strategies and reviewed by and added to by practitioners.

INSTRUCTIONS

The purpose of this research is to provide information on the strategies used by auditors in resolving disputes with their clients concerning accounting and reporting issues. The issues we address are not likely to be those that involve a direct violation of an accounting standard or a statutory requirement

- Two examples of the type of dispute we believe requires negotiation skills follow. The first is a simple example.
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OVERVIEW OF THE TASK:

1. Enclosed you will find four sheets with negotiating tactics you might use in dispute resolution. Each sheet has ten tactics (except the last sheet which has eight tactics only). An example of one tactic is as follows:

Category Code	Tactic				
1	Attempt to "simplify" the agenda by eliminating/combining issues				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Each Tactic card has a category code (numbered 1 to 38 so we can identify them easily), a tactic description, and a rating scale for you to assess how important the tactic is to you in your negotiations with clients.

2. You will need to separate the attached tactics numbered 1 to 38. Each tactic is perforated so they should be easy to separate.
3. Once you have separated the tactic cards then sort the tactics into groups that you feel are similar in some way. There is no correct answer so whatever you think is what we need to know.
4. For the first group, rate the individual tactics on the one to five scale provided. If you think a tactic is very important, circle the number 1, if you think it is a very unimportant tactic then circle the number 5. Do this scoring until all the tactics have been rated by you.

5. Record the details of the group on the recording sheets by circling the appropriate tactic-code number and recording the rating you gave each of those tactics. There are 8 recording sheets however if you need more please feel free to make as many copies as you need Give each group a representative name and a brief description of what makes the items in the group similar. Use the example sheet as a guide.
6. Complete steps 4 and 5 until you have recorded each group you have sorted on a recording sheet. Use a new recording sheet for each group.
7. Complete the demographic information at the end of the exercise.
8. Return the completed coding sheets and the demographic Information Sheet to:
Ray McNamara
Associate Professor of Accounting
School of Business
Bond University Q4226
Gold Coast
or Return to the person distributing the task.

Please circle one number that indicates how important/unimportant you feel this group of tactics is in dealing with your clients.

Very Important	1	Quite	2	Neither/nor	3	Quite	4	Very Unimportant	5
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Assume you have completed all aspects of the task. You will have several piles of tactics each pile representing a similar group of strategies. For each group you should think of a representative name and record it on this sheet together with any explanations you feel may help.

EXAMPLE RECORDING SHEET
RECORD YOUR CATEGORIES HERE
 Category Name and Description

Insert Name : _____ E.g. Appeal to Authority
 Insert Description or Explanation Here _____ E.g. Use of persons, cases, and examples to support my views.

Circle the tactics you sorted into this category and write your rating for that tactic in the space provided. The **Tactic Code** is the number appearing in the top left-hand corner of the cards you have sorted. Circle the Code numbers on this sheet that represents the codes relating to all the tactics you sorted into this group (pile). Place the number that represents the importance of a given tactic you circled on the individual tactic sheets next to the relevant Tactic Code you circled.

Tactic Code	Your Rating	Tactic Code	Your Rating	Tactic Code	Your Rating
1		14		27	
2		15		28	
3	5	16		29	
4		17		30	
5		18		31	
6		19	2	32	
7		20		33	
8		21		34	
9	2	22		35	
10		23		36	
11		24		37	
12		25		38	
13		26			

NOW COMPLETE THE TASK.

First, You will need to separate the attached tactics numbered 1 to 38. Each tactic is perforated so they should be easy to separate.

Second, once you have separated the tactic cards then sort the tactics into groups that you feel are similar in some way. There is no correct answer so whatever you think is what we need to know.

Third for the first group, rate the individual tactics on the one to five scale provided. If you think a tactic is very important, circle the number 1, if you think it is a very unimportant tactic then circle the number 5. Do this scoring until all the tactics have been rated by you.

Fourth, record the details of the group on the recording sheets by circling the appropriate tactic-code number and recording the rating you gave each of those tactics. There are 8 recording sheets however if you need more please feel free to make as many copies as you need Give each group a representative name and a brief description of what makes the items in the group similar. Use the example sheet as a guide.

Fifth, complete steps 4 and 5 until you have recorded each group you have sorted on a recording sheet. Use a new recording sheet for each group.

Sixth, complete the demographic information at the end of the exercise.

Seventh, return the completed coding sheets and the demographic Information Sheet to:

Ray McNamara
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Category Code	Tactic				
1	Attempt to "simplify" the agenda by eliminating/combining issues				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5

Category Code	Tactic				
2	Clarify the needs of the other party				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5

Category Code	Tactic				
3	Discuss similar issues in other situations/settlements or patterns				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5

Category Code	Tactic				
4	Point out the "costs" of continued disagreement				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5

Category Code	Tactic				
5	Suggest a particular settlement				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
6	Control their expression of hostility				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
7	Express displeasure at their progress in the negotiations				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
8	Express pleasure at their progress in negotiations				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
9	Suggest proposals that help them avoid the appearance of defeat on an issue				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
10	Help "save face" for individuals				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
11	Suggest a review of needs with their company/board				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
12	Try to change their expectations				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
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Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
Unimportant					

Category Code	Tactic				
13	Tell the client they are being unrealistic				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
Unimportant					

Category Code	Tactic				
14	Try to gain their trust and confidence				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
Unimportant					

Category Code	Tactic				
15	Call for frequent caucuses				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
Unimportant					

Category Code	Tactic				
16	Present your draft qualified-audit opinion on the issue to indicate your the strength of your convictions if there is not compliance				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
Unimportant					

Category Code	Tactic				
17	Help develop a framework for negotiations				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
18	Keep negotiations focused on the issues				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
19	Draft suitable notes to the accounts to illustrate your position and how a question of disclosure can be more acceptable to a client once they see a suggested wording in black and white (this gives them something specific to look at, rather than arguing in general terms the need or otherwise for disclosure of a matter).				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
20	Make substantive suggestions for compromise, if within the law and accounting standards				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
21	Press them hard to make compromise				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
22	Control the timing or pace of negotiations				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic				
23	Keep the parties at the table and negotiating				
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients					
Important	Very	Quite	Neither/nor	Quite	Very
	1	2	3	4	5
					Unimportant

Category Code	Tactic										
24	Tell them that their position is against spirit of the relevant accounting standard.										
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients											
Important	<table border="1"> <thead> <tr> <th>Very</th> <th>Quite</th> <th>Neither/nor</th> <th>Quite</th> <th>Very</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	Very	Quite	Neither/nor	Quite	Very	1	2	3	4	5
Very	Quite	Neither/nor	Quite	Very							
1	2	3	4	5							
	Unimportant										

Category Code	Tactic										
25	Argue your case to the client										
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients											
Important	<table border="1"> <thead> <tr> <th>Very</th> <th>Quite</th> <th>Neither/nor</th> <th>Quite</th> <th>Very</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	Very	Quite	Neither/nor	Quite	Very	1	2	3	4	5
Very	Quite	Neither/nor	Quite	Very							
1	2	3	4	5							
	Unimportant										

Category Code	Tactic										
26	Use humour to lighten the atmosphere										
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients											
Important	<table border="1"> <thead> <tr> <th>Very</th> <th>Quite</th> <th>Neither/nor</th> <th>Quite</th> <th>Very</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	Very	Quite	Neither/nor	Quite	Very	1	2	3	4	5
Very	Quite	Neither/nor	Quite	Very							
1	2	3	4	5							
	Unimportant										

Category Code	Tactic										
27	Have them prioritize the issues										
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients											
Important	<table border="1"> <thead> <tr> <th>Very</th> <th>Quite</th> <th>Neither/nor</th> <th>Quite</th> <th>Very</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	Very	Quite	Neither/nor	Quite	Very	1	2	3	4	5
Very	Quite	Neither/nor	Quite	Very							
1	2	3	4	5							
	Unimportant										

Category Code	Tactic										
28	Take responsibility for their concessions										
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients											
Important	<table border="1"> <thead> <tr> <th>Very</th> <th>Quite</th> <th>Neither/nor</th> <th>Quite</th> <th>Very</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	Very	Quite	Neither/nor	Quite	Very	1	2	3	4	5
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1	2	3	4	5							
	Unimportant										

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Category Code	Tactic										
30	Attempt to "speak their language"										
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients											
Important	<table border="1"> <thead> <tr> <th>Very</th> <th>Quite</th> <th>Neither/nor</th> <th>Quite</th> <th>Very</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </tbody> </table>	Very	Quite	Neither/nor	Quite	Very	1	2	3	4	5
Very	Quite	Neither/nor	Quite	Very							
1	2	3	4	5							
	Unimportant										

Category Code	Tactic
34	Seek advice on similar cases and use to support your case
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients	
Important	Very 1 Quite 2 Neither/nor 3 Quite 4 Very 5 Unimportant

Category Code	Tactic
35	Attempt to settle simple issues first
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients	
Important	Very 1 Quite 2 Neither/nor 3 Quite 4 Very 5 Unimportant

Category Code	Tactic
36	Use the conceptual framework (SAC 1, 2, 3) to help reinforce your position
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients	
Important	Very 1 Quite 2 Neither/nor 3 Quite 4 Very 5 Unimportant

Category Code	Tactic
37	Bring in other partners/accountants not directly involved in the audit to support your position
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients	
Important	Very 1 Quite 2 Neither/nor 3 Quite 4 Very 5 Unimportant

Category Code	Tactic
38	Let them blow off steam in front of me
Please circle one number that indicates how important/unimportant you feel this tactic is in dealing with your clients	
Important	Very 1 Quite 2 Neither/nor 3 Quite 4 Very 5 Unimportant

RECORDING SHEET
RECORD YOUR CATEGORIES HERE

Category Name and Description

Circle the tactics you sorted into this category and write your rating for that tactic in the space provided

Codes:	Rating	Codes:	Rating	Codes:	Rating
1		14		27	
2		15		28	
3		16		29	
4		17		30	
5		18		31	
6		19		32	
7		20		33	
8		21		34	
9		22		35	
10		23		36	
11		24		37	
12		25		38	
13		26			

Please circle one number that indicates how important/unimportant you feel this group of tactics is in dealing with your clients.

Very Quite Neither/nor Quite Very
Important 1 2 3 4 5 Unimportant

BACKGROUND INFORMATION
PLEASE CIRCLE THE RELEVANT NUMBER REPRESENTING
YOUR BACKGROUND INFORMATION

Position:	Partner	Manager	Audit Senior	Audit Clerk	Other
Circle the appropriate no.	1	2	3	4	5
Age	Less than 25	25 - 30	31 - 35	36 - 40	Greater than 40
Circle the appropriate no.	1	2	3	4	5
Number of years in your present position	Less than 1	1 - 5	6 - 10	11 - 15	Greater than 15
Circle the appropriate no.	1	2	3	4	5
Number of years experience in auditing	Less than 3	4 - 5	6 - 10	11 - 15	Greater than 15
Circle the appropriate no.	1	2	3	4	5
Formal Qualifications	Institute Examinations	Diploma	Bachelors Degree or equivalent	Masters Degree	Ph.D.
Circle the appropriate no.	1	2	3	4	5
Formal Training in Negotiation Skills	YES	NO			
Circle the appropriate no.	1	2			
Accounting Firm Size	2 - 9 Partners	10 - 25 Partners	26 - 35 Partners	36 - 50 Partners	more than 50 Partners
Circle the appropriate no.	1	2	3	4	5

If you wish to receive a copy of the results please provide your Name and Address Below:

Name:

Address:
