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1. Introduction

Negotiations between clients and auditors over audit adjustments are common, particularly when relevant accounting standards are ambiguous or absent (Gibbins, Salterio, and Webb 2001; Gibbins, McCracken, and Salterio 2007). The strategies that auditors and clients use in these negotiations influence negotiation outcomes, financial statement quality, and auditor–client relationships. Extant studies largely examine the effects of these strategies from the perspective of one party (either auditor or client), use general theories that are not party-specific, and are silent on the effects of these strategies from the perspective of the other party. However, there are reasons to believe that the effectiveness of these strategies varies depending on who is using them.

In this study, we introduce the concept of norm-violation (Gibbs 1981; Brauer and Chekroun 2005) and posit that the effectiveness of negotiation strategies is affected by whether negotiating parties’ use of these strategies violates these norms. Unlike the general negotiation settings examined in the psychology literature, auditor–client negotiations occur in a professional setting between two knowledgeable parties, where the negotiations are constrained by regulatory and professional standards. As a result, a distinctive feature is that there are differences in the norms regarding negotiation approaches generally used by auditors versus clients. Our central thesis is that using negotiation strategies that deviate from norms attracts negative reactions from the counterparty and, in turn, inferior outcomes compared to when norm-consistent strategies are used. Furthermore, the effectiveness of particular negotiation strategies depends on the party who uses them.

Another distinctive feature of auditor–client negotiations is that there are differences in terms of whether there is strategic inflation of opening proposed audit adjustments in anticipation of bargaining down by the other party. Research indicates that while clients do so (Bame-Aldred and Kida 2007), auditors do not, with their opening proposed adjustments being close to what they think is most appropriate (Ng and Tan 2003). This suggests that auditors would not offer large concessions at the start, given that careful

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1. Exceptions include Gibbins, McCracken, and Salterio (2005), who compare auditor and client recalls of negotiation elements, and Bame-Aldred and Kida (2007), who compare prenegotiation judgments (e.g., limits, goals) and perceived likelihood of using certain tactics (e.g., problem-solving approach versus contentious approach) between auditors and clients. Neither of these studies examines the effectiveness of different negotiation strategies, and how the effectiveness varies, when used by different parties.
consideration has already been given to the appropriateness of the adjustment; instead, they may do so (if at all), toward the end of the negotiation, after further discussions with the client (we call this an *End* strategy). On the other hand, having built slack into their opening positions, clients are more likely to offer large concessions earlier rather than later in the negotiation (we call this a *Start* strategy). Thus, the use of the *End* strategy is likely norm-consistent for auditors, but not for clients; in contrast, the use of the *Start* strategy is likely norm-consistent for clients, but not for auditors. Also, consistent with societal expectations of reciprocity, the provision of small, gradual concessions by either the auditor or client (we call this a *Gradual* strategy) is likely considered norm-consistent. When used by auditors, the *Gradual* strategy does not share a core feature of the norm-inconsistent *Start* strategy in that no large concession is given upfront; when used by clients, it also does not share a core feature of the norm-inconsistent *End* strategy in that concessions are not held until the end.

The norm-violation theory suggests that, for auditors, the norm-consistent *End* and *Gradual* strategies are more effective than the norm-inconsistent *Start* strategy. In contrast, for clients, the norm-consistent *Start* and *Gradual* strategies are more effective than the norm-inconsistent *End* strategy. In other words, while the *Gradual* strategy is predicted to be effective whether used by auditors or clients, the effectiveness of the *End* versus *Start* strategy varies depending on the party using it.

We test our predictions using an experiment with experienced audit partners/managers and financial managers as participants. We manipulate negotiation strategies (*Start*, *End*, or *Gradual*) between subjects. Results are consistent with the predictions of the norm-violation theory. Further, participants have a stronger tendency to use the less-friendly *End* strategy and a weaker tendency to use the more-friendly *Gradual* strategy when the hypothetical counterparty uses norm-inconsistent versus norm-consistent strategies. In an additional study with auditors and financial managers as participants, we find evidence that participants indeed consider it the norm for auditors to use the *End* strategy, financial managers to use the *Start* strategy, and either party to use the *Gradual* strategy. The participants also indicate that they desire to extract the greatest concessions from a counterparty who uses a norm-inconsistent strategy.

Our study contributes to a better theoretical understanding of the importance of norms in auditor-client negotiations, and their influence on the effectiveness of three common negotiation strategies, namely the *Start*, *End*, and *Gradual* strategies. Our results cannot be fully explained by the extant negotiation-related theories in the accounting or general negotiation literature. For instance, the reciprocity mechanism has been found to be applicable to both auditors (Sanchez, Agoglia, and Hatfield 2007; Tan and Trotman 2010) and clients (Ng and Tan 2003; Hatfield, Houston, Stefanik, and Ussery 2010). Our results showing that the use of the *Gradual* strategy leads to superior outcomes when used by either auditors or clients attest to the generalizability of the reciprocity mechanism across negotiation parties. However, the reciprocity mechanism does not explain the effectiveness of other strategies such as the *Start* and *End* strategies (both involve a single concession), or how their effectiveness varies by the parties who use them. Moreover, our results cannot be explained by another commonly used mechanism, anchoring (Kwon and Weingart 2004; Tan and Trotman 2010), which predicts that the *End* strategy is superior to the *Start* strategy regardless of user. Like Tan and Trotman (2010), we find support for this prediction from the perspective of auditors’ use of these strategies; however, we find the opposite effect from the perspective of clients’ use of these strategies.

Our findings also have practical implications. An inference from prior studies (e.g., Kwon and Weingart 2004; Tan and Trotman 2010) is that both auditors and financial managers benefit from using the *End* strategy as opposed to the *Start* strategy. Our paper indicates that this is not necessarily the case for financial managers—in fact, the opposite
is true. This finding is of importance to financial managers as well as auditors, who should understand the impact of their clients’ negotiation strategies. A related implication is that sticking to norm-consistent negotiation strategies benefits negotiators in terms of concessions received. It also yields benefits in terms of a more “pleasant” negotiation experience as we find that the use of norm-consistent strategies promotes friendly responses.

The rest of the paper is organized as follows. Section 2 develops our hypotheses, while section 3 provides details of our experiment. We discuss our results in section 4, and conclude in section 5.

2. Background and hypothesis development

Effects of norms in negotiations

Social psychologists posit that people form group expectations and acquire reference group norms, which are behaviors and attitudes generally considered acceptable or desirable in a social group, and typically followed and conformed with (Sherif 1936, 1972; Cialdini and Goldstein 2004). Cognitively, norms are mental models or scripts concerning expectations and behaviors in situational settings (Schank and Abelson 1977). Psychology research indicates that people develop scripts on what to expect in everyday settings such as restaurant dining (Schank and Abelson 1977). Norms are arguably more general scripts about what is deemed to be expected or normal behavior under particular situations such as littering in public places (Cialdini, Reno, and Kallgren 1990) and talking in public libraries (Aarts and Dijksterhuis 2003). Research shows that people’s behavior is influenced by social norms that they believe others approve of, or that they learn from observing others (Birenbaum and Sagarin 1976; Cialdini and Trost 1998). Descriptive norms, or beliefs about what the majority do in particular situations or contexts, influence people’s behavior and judgments even if there are differences in individual circumstances (Campbell 1964; Cialdini, Kallgren, and Reno 1991). In particular, norm-violation theory indicates that norm-consistent behavior is accepted without question or further processing. On the other hand, norm-inconsistent behavior is subject to scrutiny and reacted upon with sanctions or retaliations when there is a threat to the self-interest of the person (Gibbs 1981; DeRidder and Tripathi 1992; Levine et al. 2000; Brauer and Chekroun 2005).

The issue of norms itself has been a dominant theme in the negotiation literature. For instance, the theory of reciprocity commonly used in the negotiation literature is based on the idea that, in an economic transaction, it is normative to reciprocate or repay what the other party has offered (i.e., a tit-for-tat norm) (Mills and Clark 1982). Underlying the reciprocity norm is the norm of fairness (Gouldner 1960; Halpern 1994, 1996; Van Lange, Ouwerkerk, and Tazelaar 2002). In contrast, in economic transactions between friends, negotiation studies have demonstrated a norm of generosity, where generosity rather than fairness is expected in such interactions between friends (Gouldner 1960; Halpern 1994, 1996; Van Lange et al. 2002). Mandel (2006) provides a striking illustration of how negotiations are determined by norms of generosity when negotiations are among friends, and determined by norms of fairness when they are among acquaintances. Overall, these studies suggest that different norms are evoked when negotiations take place between different parties (e.g., friends versus acquaintances).

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2. Norm violation theory predictions are different from predictions based on expectation violation theory (Burgoon and Jones 1976; Burgoon 1978). In expectation violation theory, positive violations of expectations are rewarded while negative violations are punished. In contrast, in norm-violation theory, violations are reacted upon negatively even if it is a positive violation. This likely occurs because norms that socially survive are those that best meet the needs of different parties. The norm-violation mechanism has been shown to better explain social norm deviation reactions than the expectation violation model (Levine et al. 2000).
Norms lead people to form expectations about the behavior of others during communications and interactions, and to be situationally aware of deviations from such norms. Norm-consistent behavior is accepted without question. However, a party’s behavior that deviates from a range of expected behavior is salient and leads to increased scrutiny of the behavior by the observer (Burgoon and Jones 1976; Burgoon 1978). This scrutiny involves more active cognitive processing of the violation, along with the attendant reaction. In the case of behavior that threatens the self-interest of the observer, social control is exercised (i.e., people express their disapproval to someone engaging in norm-inconsistent behavior) (Gibbs 1981; DeRidder and Tripathi 1992; Levine et al. 2000; Brauer and Chekroun 2005). For instance, negotiators primed about fairness have been found to retaliate against counterparties who violate the norm of reciprocity (Maxwell, Nye, and Maxwell 2003).

In many empirical demonstrations of norm-violation theory, the underlying premise is that the norm-inconsistent behavior (e.g., littering in public, talking in the library) has negative implications for people’s self-interest and invites negative outcomes or reactions such as sanctions, social controls, or retaliations (e.g., Brauer and Chekroun 2005). Such sanctions and retaliations are unlikely in situations where the norm violations have positive or no negative implications for people’s self-interest; however, even in these situations, the outcome can still be negative for the norm-violator in that norm-inconsistent behavior invites scrutiny and can be exploited by the observer to the latter’s benefit. Applied to the negotiation context, the literature discussed above suggests that norm-inconsistent negotiation strategies are less effective than those that are norm-consistent.

Effect of norms in auditor-client negotiation settings

We posit that the effectiveness of negotiation strategies (specifically, concession-timing strategies) is norm-dependent and a function of the negotiation party employing these strategies. More specifically, negotiation strategies that are otherwise deemed effective according to general psychological theories are rendered ineffective to the extent they are norm-inconsistent for the party employing those strategies. In other words, negotiation strategies are effective as long as they do not violate norms. This is particularly the case in an auditor–client negotiation context where there are rich institutional norms.

We first consider the auditor’s use of negotiation strategies. Prior research indicates that auditors do not strategically inflate their opening proposed audit adjustments in anticipation of bargaining down by the client (Ng and Tan 2003). Given that the initial proposed audit adjustment is likely the auditor’s assessment of the most appropriate audit adjustment (Ng and Tan 2003), this suggests that the auditor would not make large concessions right at the start of the negotiation (akin to a Start strategy), which would be norm-inconsistent. In contrast, if an auditor makes a large concession, he/she is more likely to do so at the end of the negotiation after further discussions with the client. This pattern of negotiations by the auditor is akin to an End strategy. The use of this End strategy is also consistent with the auditor’s power to qualify the audit report serving as a source of bargaining strength (Gibbins, Salterio et al. 2001; Gibbins, McCracken et al. 2007, Salterio 2012).3 Clients with experience negotiating with auditors likely recognize that this strategy is commonly adopted by auditors, and that the End strategy is norm-consistent for auditors.

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3. Bargaining strength theory predicts that negotiators with more bargaining strength are more likely to use hard negotiation tactics, while those with less bargaining strength are more likely to use soft negotiation tactics to ingratiate themselves with the more powerful negotiator (Komorita 1977; Pruitt 1983; Komorita, Aquino, and Alan 1989). Bargaining strength theory thus predicts that the auditor is more likely to use an End strategy than a Start strategy (given the auditor’s stronger bargaining strength in general), while the reverse is true for the financial manager. However, bargaining strength theory does not predict whether stronger (weaker) negotiators will achieve better negotiation outcomes through using hard (soft) tactics, and vice versa.
The Gradual strategy involves making small incremental concessions during the negotiation process. Given that subjectivity is generally involved in audit adjustments, the auditor likely has a range of acceptable numbers to choose from for his/her initial proposed audit adjustment. Hence, granting small, gradual concessions after having made an initial proposed audit adjustment is likely considered acceptable to the auditor. Unlike the norm-inconsistent Start strategy, but similar to the End strategy, the auditor does not make an early large concession in the case of a Gradual strategy. This suggests that small, gradual concessions are norm-consistent when used by the auditor.\(^4\)

In contrast to the auditor, the client is not governed by the auditor’s code of professional conduct and is more likely to build more flexibility in his/her opening moves in anticipation of resistance or cut-backs by the auditor (Bame-Aldred and Kida 2007). Because the client has already built in some slack into the opening moves, he/she is also more likely to offer more material concessions earlier (i.e., akin to a Start strategy) rather than later at the end of the negotiation (i.e., akin to an End strategy). Further, the client clearly wants to avoid a qualified opinion from the auditor, and holding on to an initial aggressive position to the end can be seen as challenging the auditor. Auditors with experience negotiating with clients will likely acknowledge such an End approach as norm-inconsistent, while likely also recognizing the Start strategy as a common and norm-consistent approach for clients. Unlike the norm-inconsistent End strategy, a client who uses a Gradual strategy does not hold steadfast to his/her initial position until the very end of the negotiation. Instead, the client offers a concession (albeit a more modest one) at the start, similar to the Start strategy. Hence, as in the case of the auditor, the client’s use of the Gradual strategy is norm-consistent.

Norm-violation theory indicates that norm-inconsistent negotiation strategies will be ineffective (Gibbs 1981; Levine et al. 2000; Brauer and Chekroun 2005). Specifically, a client’s use of the norm-inconsistent End strategy signals that the client is contentious and challenging the auditor. The auditor’s interests are threatened, and norm-violation theory predicts that the client’s use of this norm-inconsistent End strategy will be retaliated upon by the auditor, suggesting that the auditor’s proposed income-decreasing audit adjustments will be greater with the client’s use of an End than a Start strategy.

Similarly, the auditor’s use of a Start strategy is norm-inconsistent. In this case, the Start strategy does not threaten the client’s interests, so the notion of punishment does not apply. It is, however, norm-inconsistent, invites scrutiny, and signals that the auditor may not be holding firmly to the audit adjustment proposed by the audit team. This approach may be taken advantage of by the client, who offers smaller concessions as a result compared to a situation where the auditor uses an End strategy. Finally, both the auditor’s and client’s use of a Gradual strategy does not violate associated norms (i.e., it is norm-consistent). Hence, our expectation is that the Gradual strategy will perform as well as other norm-consistent strategies and better than norm-inconsistent strategies used by auditors/clients.

We state our hypotheses below:

**Hypothesis 1a.** An auditor’s use of an End strategy or a Gradual strategy will lead to greater concessions from financial managers compared to the use of a Start strategy.

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\(^4\) Hatfield, Agoglia, and Sanchez (2008) provide evidence that auditors use a reciprocity-based strategy where they bring inconsequential items to the client when they negotiate, with the intention of subsequently waiving them. This approach does not require auditors to inflate their opening offers, but does allow them to demand larger income-decreasing adjustments from clients (Sanchez et al. 2007; Hatfield et al. 2008).
Hypothesis 1b. There is no difference in concessions received from financial managers when an auditor uses either an End strategy or a Gradual strategy.

Hypothesis 2a. A client’s use of a Start or a Gradual strategy will lead to greater concessions from auditors compared to the use of an End strategy.

Hypothesis 2b. There is no difference in concessions received from auditors when a client uses either a Start strategy or a Gradual strategy.

3. Method

Participants

Our participants were 78 auditors and 66 financial managers from two major cities in China. Participants completed the study in Mandarin. We translated and back-translated the instrument from English to Mandarin and vice versa to ensure that the meaning was consistent in either language.

Our auditor participants had an average of 7.2 years of audit experience, and included eight audit partners (average experience = 13.1 years) and 70 audit managers (average experience = 6.5 years). To recruit our auditor participants, we contacted a senior partner from each of the three Big 4 firms, who solicited participation from managers/partners. The contact partners then forwarded the researchers the list of participants, including their contact phone numbers and email addresses. In terms of our auditor participants’ familiarity in negotiating audit adjustments with clients, participants indicated an average rating of 6.62 on an 11-point scale ranging from 0 (“Not at all familiar”) to 10 (“Very familiar”).

Our financial manager participants are alumni members of the accounting program at one of the top universities in China. We randomly contacted 90 alumni members who held senior accounting-related positions and requested their participation in the experiment. Sixty-six of them agreed, including 21 chief financial officers, 33 financial managers, and 12 senior accountants. They had, on average, 9.8 years of accounting experience, with an average of 7.3, 3.7, and 2.2 years, respectively, in their current positions. In terms of their familiarity in negotiating audit adjustments with auditors, participants indicated an average rating of 5.67 on an 11-point scale ranging from 0 (“Not at all familiar”) to 10 (“Very familiar”). There are no differences across conditions in terms of their ranks/positions, experience, or familiarity with auditor–client negotiations for either the auditor or financial manager participants ($p \geq 0.356$).

Case background

Our experimental task involved an audit adjustment pertaining to the potential under-provision for asset impairment, a common earnings management approach used by firms.

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5. It is possible that negotiation norms for financial managers and auditors are different in China than they are in other countries. However, our use of auditors from Big 4 public accounting firms that practice consistent professional standards worldwide, along with the fact that we replicate the results in Tan and Trotman (2010) for the financial manager participants, provide some reassurance that our results are more broadly generalizable.

6. We re-perform our tests of hypotheses using only participants whose familiarity rating is above the midpoint, and obtain similar results as those using the full sample. We find that neither accounting experience nor familiarity interacts with Strategy in influencing our main dependent variable (concessions) for auditor or financial manager participants (all $p \geq 0.342$), and we obtain similar results as our main analyses.
Our case was based on an actual incident that occurred in a listed company in China, and we developed it in consultation with senior audit partners from a Big 4 public accounting firm. Participants were informed that during the audit of the current year's financial statements, the audit team found that a set of communication equipment with a book value of ¥300 million had its antennae tilted during that year, but this did not affect the communication equipment's operational capabilities. The client had also replaced some components to enhance the equipment's performance during the year at a cost of ¥20 million, and added the expenditure to the assets' total book value, resulting in a total book value of ¥320 million. The auditor's investigation indicated that the tilt in the communication equipment occurred because of an initial design fault, suggesting that the initial value of the set of equipment had been overstated. The auditor estimated the impairment to be about ¥45 million, or 15 percent of the book value (before improvement) of ¥300 million. The estimate was conservative, and reference was made to the equipment's current fair market value. Making the adjustment would cause the client to miss its own internal profit forecast for the year. We pre-tested this case with two audit partners and five audit managers, and there was a great variance in their assessments of the appropriate amount of audit adjustment, ranging from no adjustment to the full ¥45 million adjustment. Thus, the accounting issue was subjective, with a wide range of opinions on the appropriate audit adjustment.

**Design**

We employed a $3 \times 2$ (Negotiation Strategy by Group) between-subjects design. We assigned participating auditors (financial managers) to the auditor (financial manager) role, and manipulated the negotiation strategy—Start, End, and Gradual—used by the hypothetical financial manager (auditor) counter-party negotiating with the participants in the auditor (financial manager) role. In all treatments, participants were informed that the audit adjustment proposed by the auditor involved the provision for impairment of fixed assets amounting to ¥45 million. The auditor (financial manager) participant experiments captured the natural incentives for the hypothetical financial manager (auditor) to first offer the minimum (maximum) audit adjustment of ¥0 million (¥45 million). We held constant the magnitude of the ultimate concession made by each party at ¥15 million, such that the final offer by the hypothetical financial manager was ¥15 million (up ¥15 million from the original proposed audit adjustment of ¥0 million), and that by the hypothetical auditor was ¥30 million (down ¥15 million from the original proposed audit adjustment of ¥45 million). All participants were told that the number of negotiation rounds would not exceed four.

In the auditor experiment, participating auditors responded to offers by a hypothetical client. The auditors negotiated over four rounds with the hypothetical client. In all conditions, participants were informed of the audit team's view that the audit adjustment should be ¥45 million, and that the hypothetical client proposed no audit adjustment in Round 1. The hypothetical client made the same final offer of ¥15 million in Round 4 in all conditions, after which the auditors made their final decisions.

In the Start condition, Round 1 of the negotiation started with the client refusing to make any adjustment, followed by an offer to make an audit adjustment of ¥15 million in Round 2, a figure to which they held for the remaining two rounds (see Table 1). In the End condition, the client maintained his position of not making any audit adjustment.
TABLE 1
Summary of manipulations: Income-decreasing audit adjustments proposed by hypothetical financial manager/auditor at each negotiation round (in ¥ million)

Panel A: Auditor participants: Audit adjustments proposed by hypothetical financial manager

<table>
<thead>
<tr>
<th>Round</th>
<th>Start strategy</th>
<th>Gradual strategy</th>
<th>End strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round 1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Round 2</td>
<td>15</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Round 3</td>
<td>15</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>Round 4</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

(Auditor participants’ final decision)

Panel B: Financial manager participants: Audit adjustments proposed by hypothetical auditor

<table>
<thead>
<tr>
<th>Round</th>
<th>Start strategy</th>
<th>Gradual strategy</th>
<th>End strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round 1</td>
<td>45</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Round 2</td>
<td>30</td>
<td>41</td>
<td>45</td>
</tr>
<tr>
<td>Round 3</td>
<td>30</td>
<td>37</td>
<td>45</td>
</tr>
<tr>
<td>Round 4</td>
<td>30</td>
<td>33</td>
<td>30</td>
</tr>
</tbody>
</table>

(Hypothetical auditor’s final decision) 30 30 30

Notes:

Start strategy: an early concession strategy where a concession is provided after one round of negotiation.

Gradual strategy: a gradual concession strategy where concessions are gradually offered during the negotiation period.

End strategy: a delayed concession strategy where the concession is offered only during the last round of the negotiation.

in Rounds 1 to 3, and offered to make a ¥15 million audit adjustment in Round 4. In the Gradual condition, the negotiation started with the client suggesting no audit adjustment in Round 1, increasing to ¥6 million in Round 2, ¥12 million in Round 3, and ¥15 million in Round 4.8

For the financial manager experiment, the hypothetical auditor made four offers, to which the financial managers responded with counter-offers. In all conditions, the hypothetical auditor started Round 1 with a proposed audit adjustment of ¥45 million and made a final decision of ¥30 million after the financial managers had made their Round 4 offers.9 Note that because the hypothetical auditor made the ultimate audit adjustment that the financial managers must accept to avoid the risk of a qualified opinion, the Round 4 offer made by the financial managers (after they have seen the Round 4 auditor offer) was the last round where the financial managers made offers.

8. Our participants negotiated over four rounds, and this corresponds to actual negotiations in practice. Interviews with three audit partners and two audit managers indicate that negotiations normally last about three rounds. Our interviewees also have intuitive views about what are early or late concessions. For a three-round negotiation, they perceive that early/late concessions are given in the first/third round of negotiations; for a four-round negotiation, they perceive that early and late concessions are made in Rounds 1–2 and 3–4, respectively.

9. In practice, the auditor makes the final offer on adjustments during auditor-client negotiations. We capture this in both the auditor and financial manager experiments. In the auditor participant experiments, the participating auditors made the final offer; in the financial manager participant experiments, the hypothetical auditor made the final offer.
In the *Start* condition, the hypothetical auditor made no concession in Round 1 (offer of ¥45 million), and then conceded to ¥30 million in Round 2, which remained unchanged for the final two rounds.\(^{10}\) Thus, all financial manager participants received the same concession of ¥15 million at the end of the negotiation, with the difference among the treatments being the timing of the concession (see Table 1).\(^{11}\) In the *End* condition, the auditor maintained his position not to make any audit adjustment in Rounds 1 to 3, but conceded to make a ¥30 million audit adjustment in Round 4. Having the auditor concede in Round 4 (rather than Round 5) allows the participating financial managers to see that the auditor has made a concession at the last stage prior to making their final offer. This also keeps constant the feature that both auditor and financial manager participants in this *End* condition were aware that the hypothetical counter-party had made a concession at the end before participants made their final offers. Had the hypothetical auditor conceded only after the financial managers’ Round 4 offer, there would have been a difference in the *End* condition for the auditor and financial manager experiments in that participants in the latter experiment would not have seen the concession by the auditor before they made their final offers.\(^{12}\) In the *Gradual* condition, the negotiation started with the hypothetical auditor making no concession, with ¥45 million as the proposed adjustment. This adjustment decreased to ¥41 million in Round 2, ¥37 million in Round 3, and ¥33 million in Round 4.

**Procedure**

One of the researchers first contacted each participant to agree on a time for the experiment. At the agreed time, the researcher phoned the participant, and informed him/her that the study was about to begin. Thereafter, the researcher emailed the participant a cover note and the case materials. The cover note for the participating auditor (financial manager) informed each participant that he/she would be asked to take on the role of the audit partner/chief financial officer. The participating auditors (financial managers) were informed that they would be requested to enter into negotiations, via email, with a hypothetical chief financial officer (auditor) on the magnitude of the proposed audit adjustment. About ten minutes after the first email, another researcher, in the role of the hypothetical financial manager or auditor, sent the proposed audit adjustments (via another email address) that varied depending on the experimental condition that the participants were assigned to. Upon completion of the negotiation rounds, the first researcher sent the participant a series of questions related to the negotiation (e.g., satisfaction, attitude on concession strategies), as well as debriefing questions. On average, the experiment lasted about 70 minutes.

\(^{10}\) Tan and Trotman (2010) call this the *Start + 1* condition. They have another similar condition where the hypothetical auditor offered an adjustment equivalent to the ultimate writedown even before the start of the negotiation (not after one round of negotiation as in this case), and find that effects are identical to that in the *Start* condition.

\(^{11}\) The hypothetical auditor always accompanied his offer with a standard argument that the equipment had been impaired. In contrast, the hypothetical client accompanied his offer with the standard argument that although the equipment had a tilt, its operational functions had not been affected. We hold constant the rationales provided by the hypothetical auditor (client) for all financial manager (auditor) participants so as not to provide differential information to different participants (see Tan and Trotman 2010 for a similar approach).

\(^{12}\) We also collected data for an *End* condition in which the auditor conceded only after the financial managers had made their final offers (equivalent to the Tan and Trotman 2010 *End* condition). Participants were 20 financial managers with similar backgrounds as those in the main experiment. The mean Round 4 offer in this condition is ¥16.60 million, which is not significantly different from either the ¥18.84 million ($p = 0.370$) or the ¥20.30 million ($p = 0.148$) of the *End* and *Gradual* conditions reported in the main experiment. It is, however, higher than that in the *Start* condition (¥10.38 million, $p = 0.020$). Thus, using the Tan and Trotman (2010) *End* condition, we are able to replicate their results, as well as those of our main experiment.
4. Results

Our primary dependent variable is the concession offered by participants. The audit adjustment in our experimental case is income-decreasing. Because the audit team’s initial estimate for the impairment was ¥45 and the client’s preference was to make no adjustment for potential impairment, the concessions made by auditor (financial manager) participants are measured using ¥45 million (¥0 million) as a benchmark. Specifically, for the auditor participants, we deducted their proposed Round 4 offers from ¥45 million to measure their concessions. For financial manager participants, their concessions are simply their Round 4 offers, since any offer above ¥0 is a concession.

We perform a $3 \times 2$ Strategy by Group ANOVA. Consistent with an interaction effect suggested in Hypotheses 1 and 2, we obtain a significant two-way interaction ($F = 11.68, p < 0.001$; see Table 2). We also perform separate analyses for financial managers and auditors, and ANOVA results and descriptive statistics are shown in Tables 3 and 4, respectively.

Consistent with Hypothesis 1a, results in Table 3 show that, for financial manager participants, concessions in the End condition (mean = 18.84) and Gradual condition (mean = 20.30) are significantly higher than those in the Start condition (mean = 10.38; $F = 11.13, p = 0.001$ and $F = 14.97, p < 0.001$, respectively). Consistent with Hypothesis 1b, concessions in the Gradual and End conditions are not significantly different ($F = 0.34, p = 0.562$; see Table 3). These results replicate the findings in Tan and Trotman (2010).

Table 4 presents the results for the auditor participants. Consistent with H2a, concessions in the Start condition (mean = 16.70) and Gradual condition (mean = 22.69) are significantly higher than those in the End condition (mean = 8.76; $F = 10.43, p = 0.002$ and $F = 31.50, p < 0.001$, respectively). Contrary to the prediction in Hypothesis 2b of a null effect, concessions in the Gradual condition are significantly higher than that in the Start condition ($F = 6.05, p = 0.016$).

**TABLE 2**

<table>
<thead>
<tr>
<th>Effect of concession timing strategies (Start, Gradual, End) and group (auditor, financial manager) on concessions</th>
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<tbody>
<tr>
<td><strong>Two-way ANOVA</strong></td>
</tr>
<tr>
<td><strong>Source</strong></td>
</tr>
<tr>
<td>Strategy</td>
</tr>
<tr>
<td>Group</td>
</tr>
<tr>
<td>Strategy × Group</td>
</tr>
</tbody>
</table>

**Note:**

$p$-values are two-tailed.

13. Consistent with our theory, for the Start strategy, concessions are significantly higher ($p = 0.024$) for auditor participants (norm-consistent) than for financial manager participants (norm-inconsistent); the reverse is true for the End strategy ($p = 0.001$).
14. It is possible that auditors expect clients to concede in general, and the greater frequency of concessions in the Gradual strategy makes this strategy even more norm-consistent relative to the Start strategy.
15. We also analyze financial managers’ satisfaction with the final audit adjustment proposed by the auditor and their intention to continue a relationship with the auditor. For the auditor participants, we asked them to assess their satisfaction with the final audit adjustment proposed by the CFO during the course of the negotiation and to predict the financial manager’s intention to continue a relationship with them. Results for these measures mirror those for the final audit adjustments. Untabulated mediation analyses indicate that norm-consistent concession-timing strategies positively affect participants’ concessions, which then positively influence their satisfaction with the final proposed audit adjustment offered by the counterparty, which in turn positively influences their assessments on the continue-relationship variable.
TABLE 3
Financial manager participants: Effects of auditor’s concession timing on concessions made by financial managers

<table>
<thead>
<tr>
<th>Panel A: Descriptive statistics</th>
<th>Start strategy</th>
<th>Gradual strategy</th>
<th>End strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of concession (in millions)</td>
<td>n = 21</td>
<td>n = 22</td>
<td>n = 23</td>
</tr>
<tr>
<td>Means (SD)</td>
<td>10.38 (8.85)</td>
<td>20.30 (6.89)</td>
<td>18.84 (9.25)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B: One-way ANOVA</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>df</td>
<td>Mean squares</td>
<td>F-value</td>
</tr>
<tr>
<td>Between groups</td>
<td>2</td>
<td>613.835</td>
<td>8.70</td>
</tr>
<tr>
<td>Within groups</td>
<td>63</td>
<td>70.539</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel C: Pairwise comparisons</th>
<th>Comparison strategy</th>
<th>df</th>
<th>F-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>End</td>
<td>Start</td>
<td>1</td>
<td>11.13</td>
<td>0.001</td>
</tr>
<tr>
<td>Gradual</td>
<td>End</td>
<td>1</td>
<td>0.34</td>
<td>0.562</td>
</tr>
<tr>
<td></td>
<td>Start</td>
<td>1</td>
<td>14.97</td>
<td>&lt; 0.001</td>
</tr>
</tbody>
</table>

Note:

p-values are two-tailed.

Strategies used by participants

We code the responses made by the participants in terms of whether they correspond to a Start, End, or Gradual strategy. We consider a concession to be Start if the participant made some concessions only in Round 1 and/or Round 2; End if the participant conceded only in Rounds 3 and/or 4; Gradual if they make concessions in at least 3 rounds, and Others otherwise.16 Table 5 presents the results. Panel A shows that auditor participants are more likely to use an End strategy when the hypothetical client uses a norm-inconsistent End strategy than when the client uses norm-consistent Start and Gradual strategies (percentages = 91.4, 33.3, and 36.4, respectively, all p < 0.001). Auditor participants also correspondingly use less of a Gradual strategy when the client uses an End strategy than when the client uses norm-consistent Start and Gradual strategies (percentages = 4.3, 54.2, and 54.5, respectively, all p < 0.001). Similarly, Panel B shows that financial manager participants use more of an End strategy when the hypothetical auditor uses a norm-inconsistent Start strategy as opposed to when norm-consistent End and Gradual strategies are used by the auditor (percentages = 73.7, 26.1, and 28.6, respectively, all p ≤ 0.004); they also correspondingly use less of a Gradual strategy when the auditor uses a norm-inconsistent Start strategy than when the auditor uses norm-consistent End and Gradual strategies (percentages = 15.8, 65.2, and 61.9, respectively, p ≤ 0.003). For all participants (auditors and financial managers), there is no difference

16. These include the responses of participants who conceded in Round 1 plus either Round 3 or 4, or in Round 2 plus either Round 3 or 4. These are not Start or End strategies, and are arguably not Gradual strategies as well. We reanalyze the data by including these responses as part of the Gradual strategy and obtain similar results.
between conditions in the participants’ use of the Start strategy \((p \geq 0.317)\). The higher adoption rate of an End strategy and lower adoption rate of a Gradual strategy is associated with a more contentious/less friendly negotiation approach. Further, to the extent that the receipt of late concessions (i.e., through the greater use of an End strategy and lesser use of a Gradual strategy) results in lower satisfaction with the process (Hatfield et al. 2008), our results suggest that the use of norm-inconsistent strategies may be associated with a less pleasant negotiation experience.

**Supplementary study**

To assess whether our propositions about the norms relating to the use of negotiation strategies by different parties have real-world correspondence, we conducted a supplementary study. Participants were 23 auditors (including seven partners and 16 managers with an average of 18.7 and 8.5 years of audit experience, and 7.9 and 3.5 years of experience in that rank, respectively), and 24 financial managers (including 14 chief financial officers and 10 financial managers with an average of 14.1 years of experience in the accounting profession, and 6.6 years and 6.9 years, respectively, in their current positions). There are two key parts to this study: an elicitation of their beliefs about the norms on the use of different strategies and a within-subject test.

First, we elicited participants’ beliefs about the norms relating to the use of Start, End, and Gradual strategies by asking them three related questions. We defined each of the three strategies and then asked them three related pairs of questions for each strategy: the extent to which they think it is normal for the auditor/CFO to use the (i) End strategy, (ii) Start strategy, and (iii) Gradual strategy \((0 = \text{very abnormal}; 10 = \text{very normal})\). Both auditor and financial manager participants provide similar responses, and we report the average of their responses here. As indicated in Table 6, participants perceive that it is more normal
### TABLE 5
Analysis of strategies used by participants during negotiations

#### Panel A: Strategies used by auditor participants in response to hypothetical financial manager’s strategy

<table>
<thead>
<tr>
<th>Hypothetical financial manager’s strategy</th>
<th>Start strategy (Percent)</th>
<th>Gradual strategy (Percent)</th>
<th>End strategy (Percent)</th>
<th>Start versus End strategy</th>
<th>Start versus Gradual strategy</th>
<th>Gradual versus End strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start strategy</td>
<td>3 (12.5)</td>
<td>2 (9.1)</td>
<td>1 (4.3)</td>
<td>1.002 0.317</td>
<td>0.138 0.711</td>
<td>0.407 0.524</td>
</tr>
<tr>
<td>Gradual strategy</td>
<td>13 (54.2)</td>
<td>12 (54.5)</td>
<td>1 (4.3)</td>
<td>13.937 &lt; 0.001</td>
<td>0.001 0.979</td>
<td>13.792 &lt; 0.001</td>
</tr>
<tr>
<td>End strategy</td>
<td>8 (33.3)</td>
<td>8 (36.4)</td>
<td>21 (91.4)</td>
<td>16.703 &lt; 0.001</td>
<td>0.046 0.829</td>
<td>14.813 &lt; 0.001</td>
</tr>
</tbody>
</table>

#### Panel B: Strategies used by financial manager participants in response to hypothetical auditor’s strategy

<table>
<thead>
<tr>
<th>Hypothetical auditor’s strategy</th>
<th>Start strategy (Percent)</th>
<th>Gradual strategy (Percent)</th>
<th>End strategy (Percent)</th>
<th>Start versus End strategy</th>
<th>Start versus Gradual strategy</th>
<th>Gradual versus End strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start strategy</td>
<td>2 (10.5)</td>
<td>2 (9.5)</td>
<td>2 (8.7)</td>
<td>0.040 0.841</td>
<td>0.011 0.916</td>
<td>0.009 0.924</td>
</tr>
<tr>
<td>Gradual strategy</td>
<td>3 (15.8)</td>
<td>13 (61.9)</td>
<td>15 (65.2)</td>
<td>10.380 0.001</td>
<td>8.839 0.003</td>
<td>0.052 0.820</td>
</tr>
<tr>
<td>End strategy</td>
<td>14 (73.7)</td>
<td>6 (28.6)</td>
<td>6 (26.1)</td>
<td>9.450 0.002</td>
<td>8.120 0.004</td>
<td>0.034 0.853</td>
</tr>
</tbody>
</table>

#### Notes:

- p-values are two-tailed.
TABLE 6
Responses to questions on perceived norms and desire to extract the greatest concessions

Panel A: Response to question “To what extent do you think it is normal for the auditor/CFO to use the *End* approach?” (0 = very abnormal; 10 = very normal)

<table>
<thead>
<tr>
<th>Participants</th>
<th>Normal for auditors Means (SD)</th>
<th>Normal for financial managers Means (SD)</th>
<th>Paired sample t-test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>t-value</td>
</tr>
<tr>
<td>Auditors</td>
<td>6.26 (1.484)</td>
<td>4.35 (1.301)</td>
<td>6.223</td>
</tr>
<tr>
<td>Financial managers</td>
<td>6.33 (1.523)</td>
<td>4.54 (1.382)</td>
<td>4.830</td>
</tr>
<tr>
<td>All participants</td>
<td>6.30 (1.488)</td>
<td>4.45 (1.332)</td>
<td>7.731</td>
</tr>
</tbody>
</table>

Panel B: Response to question “To what extent do you think it is normal for the auditor/CFO to use the *Start* approach?” (0 = very abnormal; 10 = very normal)

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Normal for auditors Means (SD)</th>
<th>Normal for financial managers Means (SD)</th>
<th>Paired sample t-test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>t-value</td>
</tr>
<tr>
<td>Auditors</td>
<td>4.13 (1.392)</td>
<td>6.09 (1.649)</td>
<td>-3.788</td>
</tr>
<tr>
<td>Financial managers</td>
<td>4.29 (1.301)</td>
<td>6.08 (1.316)</td>
<td>-6.209</td>
</tr>
<tr>
<td>All participants</td>
<td>4.21 (1.334)</td>
<td>6.09 (1.472)</td>
<td>-6.467</td>
</tr>
</tbody>
</table>

(The table is continued on the next page.)
### Panel C: Response to question “To what extent do you think it is normal for the auditor/CFO to use the Gradual approach?” (0 = very abnormal; 10 = very normal)

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Normal for auditors Means (SD)</th>
<th>Normal for financial managers Means (SD)</th>
<th>Paired sample t-test</th>
<th>t-value</th>
<th>df</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditors</td>
<td>6.39 (1.158)</td>
<td>6.65 (1.112)</td>
<td></td>
<td>-1.000</td>
<td>22</td>
<td>0.328</td>
</tr>
<tr>
<td>Financial managers</td>
<td>6.58 (1.283)</td>
<td>6.54 (1.285)</td>
<td></td>
<td>0.137</td>
<td>23</td>
<td>0.892</td>
</tr>
<tr>
<td>All participants</td>
<td>6.49 (1.214)</td>
<td>6.60 (1.192)</td>
<td></td>
<td>-0.532</td>
<td>46</td>
<td>0.597</td>
</tr>
</tbody>
</table>

### Panel D: Responses to item “Indicate the extent you desire to extract the greatest concessions” (0 = No desire at all; 10 = Extremely high desire)

<table>
<thead>
<tr>
<th>Description</th>
<th>Counter-party uses the Start strategy</th>
<th>Counter-party uses the Gradual strategy</th>
<th>Counter-party uses the End strategy</th>
<th>Start versus Gradual</th>
<th>Start versus End</th>
<th>Gradual versus End</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t-value</td>
<td>p-value</td>
<td>t-value</td>
<td>p-value</td>
<td>t-value</td>
<td>p-value</td>
</tr>
<tr>
<td>Auditors</td>
<td>Means (SD)</td>
<td>5.48 (1.951)</td>
<td>5.61 (2.083)</td>
<td>7.61 (1.373)</td>
<td>-0.308</td>
<td>0.761</td>
</tr>
<tr>
<td>Financial managers</td>
<td>Means (SD)</td>
<td>7.42 (1.412)</td>
<td>5.42 (1.558)</td>
<td>5.08 (1.954)</td>
<td>6.645 &lt; 0.001</td>
<td>5.866 &lt; 0.001</td>
</tr>
</tbody>
</table>

**Note:**

*p*-values are two-tailed.
for the auditor than the CFO to use the End strategy (mean = 6.30 and 4.45, respectively; \( p < 0.001 \)), and more normal for the CFO than the auditor to use the Start strategy (mean = 6.09 and 4.21, respectively; \( p < 0.001 \)); all the means are significantly different from the mid-point of 5 (\( p \leq 0.007 \)). Further, they perceive that it is normal for both the auditor and CFO to use the Gradual strategy (mean = 6.49 and 6.60, respectively; \( p = 0.597 \)); both means are significantly above the mid-point of 5 (\( p < 0.001 \)). These results provide evidence that, consistent with our theory, the use of the End (Start) strategy is perceived to be the norm for the auditor (CFO), and that the use of the Gradual strategy is also perceived to be the norm for both auditor and CFO.17

Finally, we ask auditor (financial manager) participants to indicate the extent to which they desire to extract the greatest concessions when the CFO (auditor) uses the End, Start, or Gradual strategy (0 = No desire at all; 10 = Extremely high desire). For the auditor participants, mean ratings are the highest when the CFO uses the norm-inconsistent End strategy (mean = 7.61) relative to either the Start or Gradual strategy (means = 5.48 and 5.61, respectively; \( p < 0.001 \)). In contrast, for the financial manager participants, mean ratings are the highest when the auditor uses the norm-inconsistent Start strategy (mean = 7.42) relative to either the End or Gradual strategy (means = 5.08 and 5.42, respectively; \( p < 0.001 \)). While we do not ask participants to explain their ratings, these results are consistent with the auditor participants intending to “punish” the CFO who uses a norm-inconsistent End strategy and the financial manager participants intending to exploit a “weak” auditor who uses a norm-inconsistent Start strategy.

5. Conclusion

In this study, we examine how norms about the use of negotiation strategies by different parties in an auditor–client negotiation influence the relative efficacies of these negotiation strategies. Using an experiment with experienced auditors and financial managers as participants, we find that norms do differ between the two parties and that these norms influence the effectiveness of the three concession-timing strategies we examine: End, Start, and Gradual. Specifically, our results show that, when used by auditors, the End and Gradual strategies are more effective than the Start strategy. In contrast, when used by clients, the Start and Gradual strategies are more effective than the End strategy, with the Gradual strategy being the most effective.

We contribute to the audit negotiation literature by showing how institutional norms in the auditor–client negotiation setting have a significant influence on the effectiveness of these strategies when used by different negotiation parties. Interestingly, while our results are consistent with norm-violation theory, none of the competing mechanisms fully explains our results. For example, although the reciprocity mechanism correctly predicts that the Gradual strategy is effective when used by either auditors or clients, it does not predict how the effectiveness of other strategies (Start, End) might vary depending on the user. The anchoring mechanism also does not explain our results, as it predicts the dominance of the End strategy regardless of its user. In addition, our findings on how negotiation strategy effects on one party reverse when another party uses the same strategy have broad implications on other accounting settings where norms likely exist. For instance, norms on the use of the End or Start strategy by the buyer or seller may apply in transfer pricing settings.

It is important to note that, by design, we hold the negotiation strategy of one party constant and investigate the reactions of the other negotiation party. Future studies could

17. In our main experiment, we also elicit participants’ perceptions about the norms relating to the use of the End strategy, and find similar results. We also find that our predicted effects in the main experiment are stronger among participants who hold stronger as opposed to weaker beliefs in these norms.
explore how the strategies we identified as “optimal” from each party’s perspective interactively combine to influence negotiation outcomes, particularly when negotiation parties vary their negotiation approaches as a function of the strategies used by the counter-party. In addition, we only examine one set of norms relating to the use of concession-timing strategies. It is likely that other negotiation norms exist, and future research should seek to understand the influence of such norms. Also, in practice, there may be mismatches in negotiators’ knowledge of the norms for the use of these negotiation strategies. How these mismatches influence the negotiation process is an area for future research.

References


