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A Negotiation-Oriented Model of Auditor-Client Relationships

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Abstract

The increasing frequency and complexity of inter-organizational relationships suggests that inter-organizational negotiations should represent an area of increasing concern to management and academicians. Unfortunately, there is little theorizing about, nor study of, these negotiations. The few extant models are heavily influenced by models of individual negotiating styles that are then raised to the inter-organizational level with minimal change. The model developed here attempts to provide a framework for understanding the context of these inter-organizational negotiations by identifying and illuminating factors that influence the outcome of interactions in various long-term supplier relationships. Factors discussed include dynamic and stable environments, organizational cultures, role involvement, previous interactions between the individuals and organizations, and the unique characteristics of the decision-making processes that characterize the specific parties. As a framework for our presentation, we draw upon Kleinman and Palmon's (1999) theory of audit firm-client firm relationships, which is based on Kahn et al.'s (1964) Role Episode Model and Merton's (1966) Role Set Model. This paper incorporates Shakun's (1988) theory of evolutionary system design. The inclusion of the latter improves upon Kleinman and Palmon's work by first providing a better motive for the interaction between the parties, and second by shedding further light on the dynamics of the negotiation process.

Key words: auditor, client, negotiation, inter-organizational relationships, auditor independence, big 5 auditors, evolutionary system design, organizational conflict

1. Introduction

This article develops a negotiation model of inter-organizational relationships. It approaches relationships between firms as a patterned sequence of events that develops over time. Specifically, this model begins with a model of organizational action based on Shakun (1988). This theory argues that behavior is motivated by the attempts to match outcomes to values, with operational goals being the link between values and outcomes. The discrepancies or incongruities between the values or desired outcomes of different organizations create conflict between them. The severity and the outcomes of this conflict are mediated by many factors. These factors include organizational, environmental, and relational elements that can account for outcomes not predictable or explainable by other theories. (This broad tapestry of factors are not captured in individual level models of negotiation, which consequently is not the focus of our paper.) Thus, the model helps firms to be more pro-active in negotiations and other dealings with organizations where a long-term, intense, reciprocally interdependent relationship is expected, as is the case in auditor-client relationships.

The theory presented here represents an extension of prior theoretical work by Kleinman and Palmon (1999). Kleinman and Palmon (hereafter KP) used Kahn et al.'s (1964) Role Episode Model and Merton's (1966) Role Set Model to present a theory of audit firm-client firm relationships.[1] This model builds upon KP's earlier work by presenting a better mechanism for describing the underlying values of the parties and how these underlying values, and the associated operational goals, help drive the interaction. This task is accomplished by incorporating Shakun's (1988) Evolutionary System Design theory into the earlier KP work. Also, this paper draws upon the conflict style literature (e.g., Blake and Mouton 1964) to better describe the nature of the auditor-client interaction.

Consistent with KP, we argue that patterned sequences of inter-organizational relationships develop with the passage of time. Such patterns are seen as the outcomes of the internal and external forces that affect both parties, including attempts to realize their values. The match between the organizational values and goals of the parties affects, and is affected by, the history of the interactions between the parties themselves. The development of these forces, and the quality of the value matching between the organizations, are explored by applying Kahn et al.'s (1964) and Merton's (1966) models to inter-organizational relationships. The Shakun, Kahn, and Merton models can very usefully further our ability to conceptualize inter-organizational relationships since they include elements that describe the motivational, organizational, environmental, and relationship factors that influence the parties' role exchanges. Accordingly, the use of these models allows us to create a comprehensive model for exploring the relationships between any two organizations.

This model describes processes that may influence the organizational learning that takes place as each organization's behaviors generate responses that lead to counterresponses. The model describes how discrepant or incongruent value systems and the differential responsiveness of different organizational cultures to the other party's behavior lead to conflict. To accomplish this, we use models of both individual and organizational interaction and perception. The individual level models are necessarily transplanted to the level of organization. It is assumed that these individual level models are transplantable.

As with KP's earlier work, this model is generally applicable to relationships between two firms that have the following four characteristics. First, the relationship should have the potential to be long-lived (relational exchanges as discussed by MacNeil 1974: cited in Ring and Van de Ven 1994). Second, the relationship should be somewhat intense in nature. Intensity can exist when either there is a great depth to the relationship between the parties, or where there are frequent interactions between the parties. Third, the parties should be reciprocally interdependent. A weaker additional consideration is that the relationships should be bounded, whether by law or contract, such that the parties have incentives to maintain their relationship.

We believe that auditor-client relationships possess these desirable characteristics. The ability of an auditing firm to manage its relationships with client firms is important since the investing public relies on the auditor's opinion in deciding how to allocate their investment dollars. The importance of this issue has been highlighted recently by the creation and operation of the Independence Standards Board. This body, an auditor regulatory body jointly created by the U. S. Securities and Exchange and the American Institute of Certified Public Accountants, has as its mission reforming the regulations that govern independence-related aspects of auditor-client relationships. Taking such a new look at the auditor-client relationship is important because of the rapid changes currently occurring in these relationships. More than one-half of the revenue of the so-called Big 5 auditing firms now comes from performing consulting services for client and non-client firms. With increasing frequency, audit firms are taking on the role of *internal* as well as *external* auditors. Thus, the auditor-client relationship is becoming at one and the same time more intensive and more extensive. The increase in the intensity of the auditor-client relationship, plus its increasingly extensive nature, further argues that a values-oriented examination of the auditor-client relationship is warranted. By using the Shakun (1988) Evolutionary Systems Design Model, Kahn et al.'s (1964) Role Episode Model and Merton (1966) Role Set Model to illuminate auditor-client relationships, we hope to demonstrate the model's applicability in a specific field and thus foster public understanding of an important issue.[2]

In section 2, we describe the Shakun (1988) Evolutionary Systems Design Model and its implications for auditor-client relations. In section 3, we describe the Role Episode Model of Kahn et al. (1964) and the Role Set Model of Merton (1966). In section 4, these models are applied to auditor-client relationships. Section 4 is organized into subsections. The first subsection (4.1) examines the resources and predispositions that affect the auditors' and clients' perceptions, expectations, and strategic choices with regard to the other. Major influences here include the personality of top decision-makers within the firms, the organizational culture of the firms, and perceptual processes within the firms. The second subsection (4.2) examines the conflict between the parties, the pressures each exerts on the other, and each one's responses to the other. The third subsection (4.3) takes theories developed by Thompson (1967) and Merton (1966) and applies them to the environment surrounding the auditor and client firms. The fourth subsection (4.4) draws on Tuckman's (1965) theory of group development to describe how the length of the relationship between a particular auditor and client affects the nature of their interactions and negotiations over time. The fifth subsection (4.5) draws together the theoretical threads of our prior discussion and ties these threads to potential negotiation strategy choices by the parties. The array of negotiation strategy choices are drawn from Blake and Mouton's (1965) characterization of conflict styles. Section 5 describes some preliminary empirical findings. Section 6 presents the implications of the developed model for inter-organizational negotiation research and auditor-client relationships.

2. The Shakun Model of Evolutionary System Design

We can see the application of Shakun's evolutionary systems design (ESD) work in the following. The quoted material comes from page 5 of Shakun (1988). Shakun writes that, "In ESD decision-makers (players) define and try to attain goals as operational expressions of underlying values."

According to Shakun, values can be either preferable (i.e., desired) modes of conduct (instrumental) or states of existence (i.e., terminal) values. In regard to the auditor-client relationship, the party-specific definitions of values are given in Table 1. Note that both the auditor and the client may have as a value financial reporting that is faithfully representative of the underlying financial condition of the company. However, this value is more likely to be a terminal value for the auditing firm than for the client. The emphasis on faithfully representative financial reporting is an essential ideological element of the socialization process that accountants and auditors undergo. It is also a central justification for the very existence of the accounting profession. Research on the values systems of accountants (Hooks 1981) demonstrates that they tend to value 'Truth' and 'Beauty' more highly than do many other occupational groups.

Financially representative reporting may also serve instrumental ends for the client. It should help the client avoid any legal consequences that would flow from false reporting. A reputation for financially representative reporting may also help the firm when it seeks to raise new capital in the capital markets. For the client, a more highly ranked terminal value may be the very survival of the firm. To the extent that accurate financial reporting is inimical to the firm's survival, the former value (faithfully representative financial reporting) may be sacrificed to the latter (survival of the firm).

Similar analyses may be made of other potential or actual players in the auditor-client relationship. Some probable terminal and instrumental values for these parties are summarized in Table 1, parts a and b. Part a describes the value groups and describes why each value group is separate from the others. Part b specifies the values and operational goals of each of the value groups.

In contrast to the instrumental and terminal values described above, Shakun (1988, p. 4) notes that "Operational goals are defined by specific unambiguous operations and are characterized by performance measures. They are operational expressions of values." In cases where the client's efforts to achieve its operational goals (e.g., reporting a high net income) interfere with the audit firm's ability to achieve its own operational goals and terminal values, a conflict results. Any important incompatibilities between the achievement of auditor goals and client goals provides the client with a motive for seeking to suborn the auditor. Thus, the client seeks to force the auditor to sacrifice one of its terminal value of independence in order to satisfy the operational goals of the client.

Shakun notes that (page 5), "N players (who may change over time) are viewed as playing a dynamical (difference) game in which a coalition (group) C (which may also change over time) of the set of N players can form . . ." While we can view the individuals who work for the auditor and client firms as members of two separate coalitions, we do not. Here, we treat the members of each audit firm and client firm as a single entity because there are powerful instruments of social control that tend to lead members of the organization to share perceptual and value orientations. These instruments of social control include socialization, organizational culture, the design and operations of command and control systems, and the characteristics of incentive systems. This treatment of audit firm and client firm members also assumes that it (the firm) ". . . can deliver to itself (and hence to its members) a set of agreed upon goals, thus defining and solving the policy-making/design problem."

Table la. Shakun ESD style values and goals analysis of auditor-client relationships

Values group A:

1. Participants
2. Investors
3. Creditors
4. Congress
5. Securities and Exchange Commission

The above are treated as one group because the emphases taken by Securities and Exchange Commission reflects the rationale for financial statement regulation, and thereby the regulation of the auditor-client interchange, taken by Congress as the basis for the 1933 and 1934 Securities and Exchange Acts. The preferences of Congress reflect broader cultural and ideological biases that pervade American culture and the related free market ideology. Thus the groups are treated as having common values.
Certain caveats to this description may exist. These are described in the values analysis.

Values group B:

1. American Institute of Certified Public Accountants (AICPA)

The AICPA is treated as a distinct value group, separate from the values of both the focal auditing firms, the peer auditing firms, and the regulatory agencies (e.g., the SEC) because it has values and interests that are not coterminous with either of these other groups, although some of its values may overlap with either of the other sets.

Values group C:

1. Peer auditing firms
2. Focal auditing firm

The peer auditing firms have values both consistent with those of the focal firm and at variance with those of the focal auditing firm. To avoid complexity in the analysis, it will be assumed that the parties values are overridingly common.

Values group D:

1. Focal client

In contrast to the members of Values Groups A and C, the focal client has a distinctly idiosyncratic view of the world and what it, the client, has to do to survive. Therefore the focal client is separated from other and potential clients.

Value group E:

1. Potential clients
2. Other clients

Both potential and other clients can be seen as having values that are distinctly different from those of the focal client, with this difference translatable into differing operational goals and behaviors.

Table lb. Formal specification of the participants, their values and operational goals

Participants	Values	Operational goals
Values Group A: 1. Investors 2. Creditors 3. Congress 4. Securities and Exchange Commission	1. Optimize allocation of capital in the capital markets. 2. Maximize wealth of shareholders. 3. Ensure fairness in access to information. 4. Minimize the economic gains to perpetrator of information asymmetry.	1. Have a comprehensive set of financial reporting standards aimed at promoting both financial statement comparability between companies, and financial statement consistency across time for the same company. 2. Have independent auditor certify financial statements with respect to their conformity to generally accepted accounting principles. 3. Enact laws that punish behaviors that hinder equal access to information about companies (e.g., insider trading, preparation of fraudulent or inaccurate financial statements, auditor non-feasance or mis-feasance – including loss of auditor 'independence'). 4. Have monitoring systems (both public – like SEC investigation capabilities – and private – like auditor liability to third parties) in place to police auditor and client behaviors with respect to laws governing publicly traded securities.
Values group B: 1. American Institute Of Certified Public Accountants	1. The autonomy of the accounting profession should be maintained. 2. The public image of the accounting profession should be preserved from damage. 3. The existence of the accounting profession should be maintained. 4. The financial prosperity of major accounting firms should be promoted.	1. Create program of self-regulation (e.g., FASB, ISB). 2. Have active program to promote positive views of accounting profession. 3. Enact laws to diminish the possibility that audit firms will be sued; promote availability of the limited liability partnership for CPA firms; enact standards of conduct that can be used as defensible guidelines for behavior by CPAs and constitute the 'state of the art' in auditing; promote 150 hours rule for certification as a CPA. 4. Seek expanded markets for CPA firm services.
Values group C: 1. Peer auditing firms 2. Focal auditing firm	1. Gaining a competitive advantage over other auditing firms. 2. Retaining own client base. 3. Being prosperous. 4. Fostering a positive professional reputation. 5. Acting in accordance with professional values. 6. Fostering the well-being of members of the firm. 7. Promoting the status of the profession.	1. Look for weaknesses in other CPA firm's client lists; 2. Burnish one's reputation for excellence in provision of services; 3. Avoid damage to one's own reputation; 4. Create incentive schemes that foster individual activity aimed at fulfilling operational goals and values;

Table 1b. Continued

Values group D:		
1. Focal client	1 . Survive. 2. Maximize returns of management as well as shareholders. 3. Maximiize size of firm. 4. Protect employment of employees.	1. Have financial statements that look good to potential investors and creditors. 2. Attract new investments and resources. 3. Find profitable outlets for corporate resources available for investments. 4. Discourage purveyors of potentially bad or negative news about the company. 5. Have an auditor whose imprimatur lends credibility to the financial statements. 6. Not receive qualified or adverse audit report from auditor. 7. Be an attractive takeover target for other companies.
Values group E:		
1. Potential clients of focal audit firm 2. Other clients	1. Have a positive reputation in the community. 2. Maximize the size of the firm. 3. Protect employment of employees. 4. Maximize the wellbeing of management as well as shareholders.	1. Have financial statements that look good to potential investors and creditors. 2. Attract new investments and resources. 3. Find profitable outlets for corporate resources available for investments. 4. Discourage purveyors of potentially bad or negative news about the company. 5. Have an auditor whose imprimatur lends credibility to the financial statements. 6. See a competitor suffer from mishaps, including negative audit reports. 7. Attract capital away from competitors. 8. Be attractive take-over target for other firms.

In the case of auditor-client relationships, where the respective parties' reporting preferences are discrepant, there can be no coalition between the auditor and the client. As can be seen in Table 1, the auditor can find others with similar terminal values or operational goals that are partially met through the auditor's achievement of his or her own goals (e.g., the SEC). If so, these constitute the coalition encompassing the auditor.

With respect to the auditor-client relation, Shakun would describe the intersection of coalition goal target set $Y^c(t)$ and its technologically feasible performance set $y^c(t)$ as empty. A 'peaceful' resolution of the problem may be achieved if either the goals of the parties are altered or if the technologically feasible performance set is expanded. In the case of the auditor-client relation, this may happen if (a) the client accedes to the auditor's reporting preferences, or (b) the auditor succumbs to the client's reporting preferences. With respect to each of these cases, the operational goals or instrumental values of at least one of the parties must be sacrificed.

Alternatively, the technologically feasible performance set may be expanded through a redefinition of the reporting problem. That is, an auditor may decide that he or she was in error in demanding such a large allowance for potential problem loans. Also, an auditor may decide to allow the client to exercise his or her (the client's) preferences on one issue if the client accedes on another issue. Thus, the auditor-client negotiations should be seen as encompassing a range of issues.

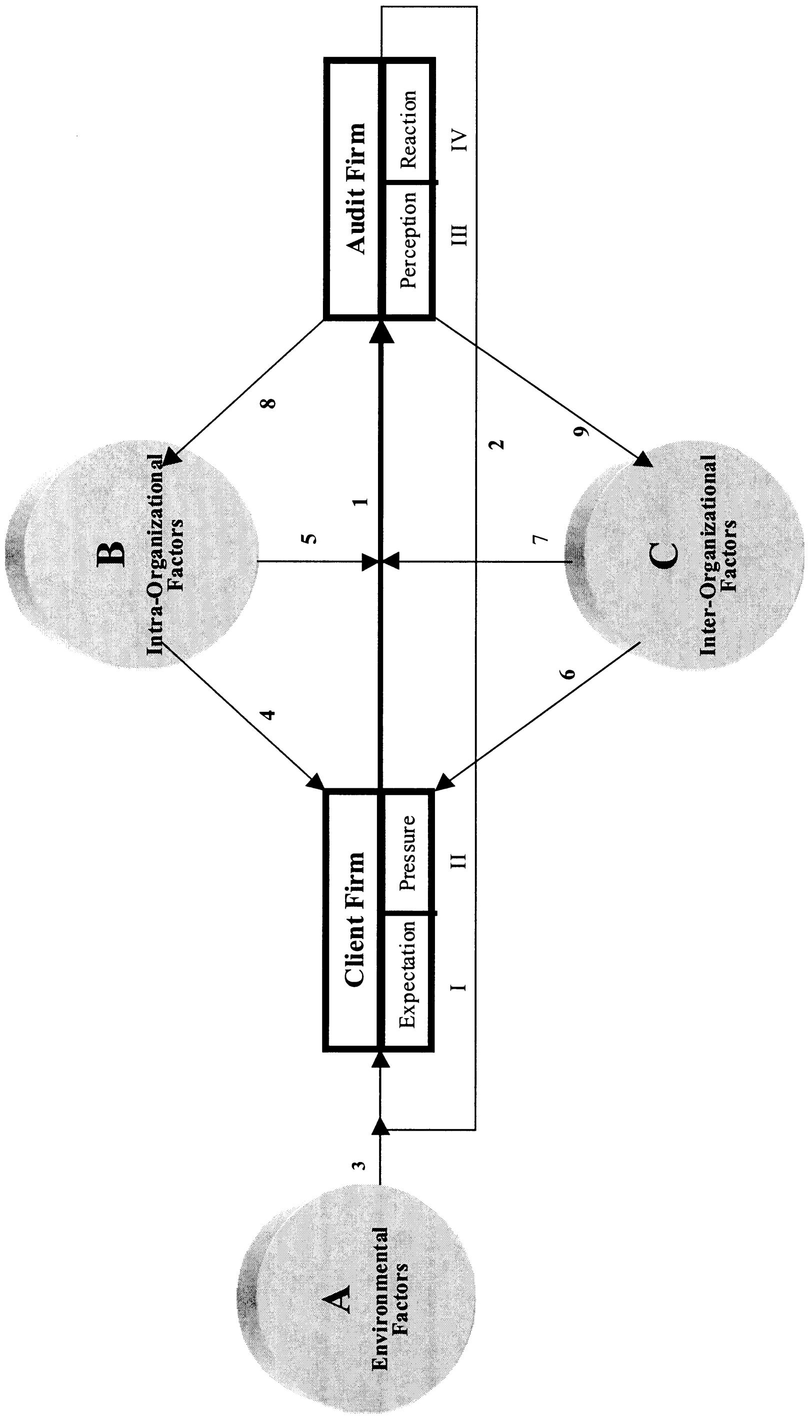

Figure 1. Role Episode Model. This figure is based on Kalm et al. (1964).

Unlike many partnering relationships, the auditor-client relationship is bounded in specific ways by both law and custom. As Table 1 illustrates, many parties have an interest in the outcomes of this relationship. This interest bounds the ability of the parties to expand the 'technologically feasible performance set' in ways that seem to contravene the statutory requirements. The statutory requirements require the client to have faithfully representative financial statements and the auditor to maintain its independence of the client while insisting that the client's financial statements be faithfully representative.

This brief exposition of the application of Shakun's ESD to the auditor-client relationship begs certain questions. These questions include: How are the preferences of the different parties formed? What motivates the parties to seek accommodation or conflict? What are the interests of third parties? And how are the interactions between the client and auditor shaped by the presence of interested others with values and operational goals that are of importance to both the auditors and clients? The presence of multiple third parties to the auditor-client interchange has implications for coalition formation. That is, perhaps the coalition that will be formed, or exploited, will be between the auditor and such third parties as the Securities and Exchange Commission, and not between the auditor and the client. Thus the auditor can form coalitions with parties other than the client firm. Or the auditor may choose not to 'partner' with anyone at all.

Other important questions include: How do differences in the organizational cultures of different auditing and client firms affect the parties' interactions? To what extent does participation in common, professional cultures affect the nature of the interaction between the parties? Is the willingness of the different parties to expand the technologically feasible preference set affected by elements of their prior interactions? In what way? Given that individuals are only intendedly rational, how does the irrationality of these individuals and the tendency to misperceive others based upon one's own psychological constitution affect the willingness of the parties to find a common, feasible solution? How do the experiential differences between the parties affect the nature of their interactions? That is, does the fact that the audit firm has thousands of clients and has faced conflicts with clients over auditing issues thousands of times over many years give it an edge in having its preferred solution adopted? To wit, does expertise in the particular problem space known as the 'auditor-client' relationship make a difference in the outcome of conflict between the parties? These considerations are not adequately addressed in the literature on auditor-client relationships. We seek to make progress toward resolving them here.

Shakun's ESD suggests ways in which the value systems and related operational goals of the auditor and client may differ. Given that they do differ, one key question is how the discord that reposes in the value systems and operational goals between auditors and clients is resolved. The next section lays the ground work for our attempt to resolve that issue. Specifically, it will describe the Kahn et al. Role Episode Model and Merton Role Set Model. Subsequently, we will show how the three theories of interest can be used to illuminate auditor-client relationships.

3. Presentation of the Role Episode (IREM) and Role Set Mode1s[3]

The REM is a theoretical framework for analyzing dyadic interactions between role senders and role receivers (Kahn et al. 1964). It explores mutual expectations,[4] perceptions, and the consequent feelings and actions of dyad members. Figure 1 presents the REM as an organization level model.

Either party may serve as the subject of the other's expectations. The role receiver (or focal organization, hereafter the Focal) is the object of the expectations of the role sender. The role sender (hereafter, the Sender), is any party that has expectations for the Focal's behavior. (Shakun might term this as a belief as to whether one party would expect the other to act in accordance with its own values or operational goals). While this framework can include multiple role senders, and the same focal playing several roles, doing this renders the model building task much more difficult. Our emphasis, therefore, is on dyadic interaction.

The sender's expectations are generated by its prior experience with focals (see Figure 1: Box I), social perception, and other learning (e.g., Kahn et al. 1964; Leifer 1988; Spencer 1992). When the sender's expectations are violated, it will pressure the focal to conform to them (see Figure 1: Box II, line 1). The focal, on perceiving the sender's expectations (see Figure 1: Box III), can react with compliance, resistance, or stress (see Figure 1: Box IV). Both parties' perceptions, expectations and behavior are mediated by the firm's organizational culture (see Figure 1: Circle B), their interorganizational relationship (see Figure 1: Circle C), and such environmental factors as the economy and societal norms (see Figure 1: Circle A, line 3). The effect of these factors would be mediated by the firm's goals, strategies, and resources. The model's dynamism derives from its incorporation of both environmental changes (Figure 1: Circle A) and the perceived actions and reactions of the other role player into the information set that influences one's own actions and expectations of the other (Figure 1: Box 1).

The Role Episode Model presents a comprehensive framework for describing determinants of the behaviors of parties engaged in a dialogue (broadly defined). The Role Episode Model captures the effects of other role senders in the Environment box (Figure 1: Circle A).

This is consistent with Merton's (1966) Role Set Model. Merton argues that dyad members are embedded in larger role structures (e.g., an audit firm must be concerned with Securities and Exchange Commission [SEC] regulations). These role structures include parties with differing and, frequently, contradictory objectives. Accordingly, Merton described how a role occupant (e.g., a teacher or accountant) could use his/her knowledge of the conflicting demands;, being made upon him/her to gain tactical and strategic advantages over his or her role senders. He analyzes the effects of the structure of the role set and the observability of the parties' interactions to external observers.

In section 4, we will use these key theoretical frameworks to analyze auditor-client relationships.

		Concern for Self		
		High	**Moderate**	**Low**
Concern	**High**	PROBLEM-SOLVING		ACCOMMODATION
for	**Moderate**		COMPROMISE	
Others	**Low**	FORCING		AVOIDANCE

Figure 2. The Conflict Style Grid.

4. The theoretical framework applied to auditor-client relationships

Negotiation arises from the existence of discrepant outcome preferences between the parties. These discrepant outcome preferences reflect different values and operational goals held by the parties. The negotiation process is driven by the expectation that such differences could be resolved.[5] It is also driven by the parallel recognition that the two parties' fates are somewhat interdependent. The development and consequences of expectations are of critical importance to this, or any, model of inter-organizational negotiations. Expectations represent the basis for action in that an expectation energizes efforts to trigger a desired behavior or thwart an undesirable behavior by another party.

Next, we discuss the factors that influence the formation and enactment of expectations by both the client and the auditor, and the influence of these expectations on the interaction of the parties.

4.1. Resources and predispositions that affect the auditor and client's perceptions, expectations, and choice of strategy vis a vis the other

4. 1. 1. Resources, predispositions and expectations of the client. KP (1999) argued that the sender's expectations for auditors are shaped by various sources. These sources include general societal norms for auditors (see Biddle 1979), the client's previous experience with audit firms, and industry experience with auditing firms (see Leifer 1988; Spencer 1992). These sources of expectation, however, must first be perceived. Perceptions, and the reactions thereto, are mediated by organizational culture and personality. Additional determinants of management action also exist. That is, there is no need for management to pressure the auditor unless there is either no overlap between the feasible coalition target set of the auditor and that of the client, or – given some area of overlap – there is no desire by at least one party to accept a solution within the area of overlapping feasible target sets, thus giving rise to a conflict between the parties. Accordingly, there is a need for negotiation as one of several conflict resolution mechanisms.

Given a disagreement with the audit firm, management may seek to pressure the auditor for economic and other reasons. Also, the client may be unfamiliar with the regulatory or legal risks facing the audit firm should it accede to the client's demands. In Shakun's terms, the client may believe that a proposed solution is within the technologically feasible set for the auditor while the auditor does not so perceive it to be. Such (mis)perceptions are probably strongly influenced both by the firm's culture and such individual difference variables as decision-maker personality(ies).

4.1.1.1. Effect of personality on the decision-making team (see Figure 1, Circle B). Organizational culture and decision-making team personality traits influence the role interactions because both powerfully influence perception. They also mediate the likelihood of a given response to a particular perception of the other's behavior. We believe that the ways that these individuals characteristically act (as influenced by their personalities) interacts with the organizational culture to produce a 'feeling-tone' within the organization. This 'feeling-tone' affects the ways that subordinates feel free to behave with respect to these teams. Thus even in a democratic/participative culture (i.e., one in which widespread participation in decision-making is encouraged), those with more authoritarian personalities may rise to power. If so, their particular behavioral predispositions should be tempered by the broader cultural acceptance of employee empowerment and participation (Kleinman and Palmon 1999).

KP argue that the following personality variables should importantly influence the auditor-client interaction: Machiavellianism, Dogmatism, and Locus of Control (e.g., Knouse and Giacalone 1992; Singhapakdi 1993). All have been shown to affect business decision-making. Accordingly, they may mediate the response of the client's decision-making team to the audit-related problem, affect the team's perception of the issues involved, and influence the interpretations placed on them (e.g., Thomas, Shankster and Mathieu 1994).

How individuals actually act toward each other is a matter of conflict style. Blake and Mouton's widely accepted model of conflict style sees conflict style as defined by an individual's placement on two dimensions: concern for self and concern for others. Figure 2 presents a popular conceptualization of five conflict styles arrayed on these dimensions. The conflict styles are describable as follows. Forcing (or asserting) implies a high concern for self and minimal concern for others. Accordingly, individuals or entities with such a conflict style push aggressively toward getting what they want at the expense of the other party's interests. Avoidance implies that the individual seeks to avoid dealing with the issues. The Problem-solving style implies that the individual works hard to forge an agreement that comports well with both parties' interests. Compromising suggests that the party is willing to sacrifice some of the party's own interest in return for the counterpart party sacrificing some of the latter's own interest. Finally, Accommodation implies that the individual is willing to sacrifice his or her interests to benefit the other.

This information is important here because both personality and organizational culture may be important determinants of conflict style choice. In the latter case, we would expect the choice of such style to reflect relatively enduring aspects of the organization. Since the perceptual system of the organization may only select information from the environment that is consistent with the idea that what it does is successful, the firm's conflict style may be persistent.

		Locus of Analysis Dimension		
		Individual	**Local**	**Cosmopolitan**
Ethical Basis for Decision	**Egoistic**	Self-Interest	Company Profit	Efficiency
	Benevolent	Friendship	Team Interest	Social Responsibility
	Principled	Personal Morality	Company Rules and Procedures	Laws and Professional Codes

Figure 3. Theoretical Ethical Climate Types. Adapted from Victor and Cullen (1988, p. 104).

Cynical, strategic and calculative individuals like High Machiavellians (High Machs) may view the auditor as manipulating the audit results in order to gain financially from the client (see Nord and Doherty 1994). This perception may dictate the High Machs' response to the audit firm. Given the calculating nature of the High Machs, it may be impossible to predict their choice of conflict style. Highly Authoritarian/Dogmatic individuals should also be much more likely to define the auditor as an 'out-group' party whose wishes can be rejected (see Rokeach 1960). They should also be more rigid in insisting that their side's position is correct and therefore be assertive in insisting that the opposite side accept it. Thus, those with strong dogmatic/authoritarian leanings will be more likely to choose an assertive style than those less dogmatic/authoritarian.

The construct of Internal vs. External Locus of Control (see Rotter 1966) has also been shown to affect business decision-making (see Moorehead and Griffin 1994). Those with an external locus of control (Externals) tend to believe results reflect luck or power exercised by others (Knouse and Giacalone 1992). Internals, those with an internal locus of control, are more likely to believe that they are in control of their own destiny and not blame the audit firm for its findings, assuming that the internals accept the audit firm's findings. Thus, Internals should be more likely to choose an accommodating or collaborative problem solving style than Externals. If Internals believe the audit firm's findings are in error, however, they are likely to adopt an assertive strategy. Externals should be expected to blame the auditor for client firm failures and resist making changes the auditor seeks (see Tsui and Gul 1996). Thus the externals would probably adopt an assertive strategy. If, however, the externals felt particularly powerless, they might adopt an accommodating strategy instead. In Shakun's terms, these personality factors affect the decision-making team's willingness and ability to redefine how or which of their operational goals should be satisfied at a given point in time.

While personality characteristics will differ amongst different members of the decision-making team, we assume that firm participants will have found a non-zero feasible solution set capable of accommodating the interests of all within the firm (Shakun 1988). To the degree that decision-making team members share similar personality characteristics, then client perceptions, expectations, apprehensions, and pressure are likely to be heavily influenced by the shared personality characteristic.

4.1.1.2. The effect of firm culture on the interactions (See Figure 1, Circle B). Organizational culture is an organization level variable that reflects the history of the firm and the circumstances that have and continue to affect its development. It is also an important determinant of the values of the firm, and thereby its choice of operational goals. An extremely control-oriented or xenophobic culture may eschew attracting outside capital because raising it may result in outsiders' attempts to influence the firm's activities.

Decision-makers in firms with very strong cultures will be strongly bound by a comprehensive set of perceptual blinders. These blinders will hinder their ability to accept solutions that are not consistent with the firm's organizational culture or values. For example, more democratic/participative cultures may be more open to negotiations in a given conflict. Authoritarians are more likely to reject suggestions that they redefine their coalition goal target set. Perceptual blinders will affect each firm's ranking of alternate solutions with respect to their concordance with the firm's values and operational goals. Different cultures will weight the same solution differently. For example, a more rigid, authoritarian culture may put a very heavy desirability weight on Solution A, which is most consistent with its values, and a much lower desirability weight on Solution B, which is the solution that is second most consistent with the firm's values. A less authoritarian culture may also put a heavy desirability weight on Solution A, due to Solution A being most consistent with its values, and put a lower, but not much lower, desirability weight on Solution B, again the solution that is second most consistent with the firm's values.

KP also argue that the ethical climate of the firm is also important. They use Victor and Cullen's (1988) definition of ethical climate. Specifically, Victor and Cullen defined ethical climates as "general and pervasive characteristics of organizations, affecting a broad range of decisions (p. 101)". They argued that the ethical portion of organizational climates had two dimensions (see Figure 3). The Locus of Analysis dimension described different beneficiaries of organizational action: Self-Egoistic Locus, which reflects the beneficiary being the individual him/herself; Local Locus, when the beneficiary is the self and others in the firm; Cosmopolitan Locus, where the beneficiary is society at large. Different criteria for decision-making also exist. These are self-interest or Egoism; a desire to help others or Benevolence; and principle (Principle). The presence of a strong normative culture exerts a strong pressure on individuals within the firms to adhere to the firm's culture. Thus, this pressure fosters adherence to the associated set of perceptions as to what is proper and improper behavior and to the preferred loci and bases for decision-making (i.e., ethical climate elements). In our terms, that suggests that the individuals will not deviate from the coalition's target set.

4.1.1.3. Perceptual processes. Organizational culture and decision-team personality affect the expectations of the auditor, and the client's willingness to accept contradictory information, largely by defining what is allowed to be perceived and how what is perceived is interpreted. Thus, the perceptual processes affect all decisions that are made and all evaluations of actions taken. Accordingly, these processes affect management's expectations of, and pressures on, the auditor. Given that uncertainty about the potential behaviors of others provokes anxiety, management will tend to categorize auditor behavior in ways that allow them to believe that they know what can be expected. Previous auditor compliance should convince management that the current auditors' coalition target set has a feasible region that overlaps with the prior auditor's target set. If the current audit firm had previously complied, management would attribute such compliance to enduring traits of the audit firm itself.

The audit firm's view of the client should be more strongly held than the client's view of the audit firm since the auditor constantly deals with client firms, while the client's attention to auditing issues arises largely in context of a dispute with the auditor. The auditor's context specific expertise gives it greater ability to (a) generate more alternatives than the client can (b) deal with a class of people with specific problems (i.e., the client), and (c) deal with a class of issues. Thus the auditor's description of whether a proposed solution to the conflict between the auditor and client is or is not part of the technologically feasible region may carry great weight, even to a client that prefers the allegedly infeasible solution. Similarly, the client can use its industry-specific expertise to manage the auditor's perception of the client's activities. The client's advantage is diminished by the extent to which the auditor is a specialist within that industry and the industry is homogeneous.

4.1.2. Resources, pre-dispositions and expectations of the auditor. The preceding section discussed several important factors that affect the perceptions and expectations of the client specifically. KP argue that the auditor's expectations for itself and its clients generally are shaped by factors similar to those that shape the client's view of the auditor. Each auditor-client pairing, however, creates a new psychological and cultural entity that transcends the cultures and processes of each. The shape of that entity will be affected by the interactions of each party's characteristics with the other's. Relationship characteristics may also be affected by the tenure of the auditor with the client, the stability/tenure of decision-making personnel on both sides (e.g., Ring and Van de Ven 1994), and general environmental and specific industry trends. Thus roles are maintained by the confluence of senders' expectations for, and the auditor's own beliefs about, the audit firm's role (e.g., Kahn et al. 1964). Should the role definitions of the client and auditor differ, and should the values of the parties clash, the stage is set for conflict.

4.2. Conflict between the role sender and focal party: Pressures and responses

This section discusses the existence of a conflict between the parties and describes certain considerations that govern the audit firm's response to the conflict.

4.2.1. Discrepancies between expected and enacted behaviors lead to pressures for compliance (Figure 1. Box II, line 3). KP argue that differences between audit and client firms may vary with the issue and variations in the firm's environment. Certain auditor behaviors may be severely disapproved by the client, while others may be popular with it. When sales and profits are high (low), the client may be unconcerned (concerned) about proposed accounting charges that will reduce income. Thus the size of the client coalition's target set (of acceptable solutions) may vary with other factors that impinge upon the client's existence. Not all clients will respond to the same auditor behavior similarly.

Differing responses could be a function of the parties' prior relationship, unique client cultural, personality, or perceptual factors, and differing levels of external threat to the client (e.g., Knapp 1987).

4.2.2. Focal perceives expectations/pressure to comply and may react with psychological conflict, resistance, persuasion attempts, or compliance (Figure 1: Boxes III and IV). KP (1999) argue that perceptual biases affect how conflict is understood. The understanding of the conflict affects the strategies that an auditing firm selects in response to client pressure. Potential perceptual problems include availability and self-serving biases. An availability bias may lead a firm to conclude that the current conflict will result in outcomes similar to a previous conflict that the decision-making team recalls most easily. A self-serving bias may lead the decision-making team to discount role episodes in which their strategy failed and weight more heavily those in which it worked. Organizational inertia as well as the cumulative effects of prior role episodes in which the firm was successfull, may make these interpretive frameworks difficult to change. Personality characteristics may affect perceptions too. A failure to perceive correctly can result in a poor choice of strategy (see Murnighan and Bazerman 1990; Zajac and Bazerman 1991).

Just the existence of a conflict issue between the parties may cause each party to perceive the actions of the other in a negative light. Thus innocent actions intended to defuse the situation may cause the parties involved to react angrily due to the negative perceptual frame that exists between the parties. Thus, either or both of the parties may misperceive the other's offer(s) as being more distant from their own coalition target set than it actually may be. Thus, even when one party locates or creates an overlapping area between the two parties' coalition target sets, the other party may fail to perceive it to be so.

The audit firm can comply with the client's wishes since noncompliance raises the specter of client loss. KP argue that the effectiveness of a client's threat to punish the auditor lies in the perceived willingness of the client to do so. Simon's Law of Anticipatory Reactions (Simon 1957), states that the auditor may expect the client to exercise power if other clients had previously done so. Thus the auditor may accede without the client having acted. The implication of this for Shakun's model is that the position of an audit firm's coalition target set, relative to that of a particular client, and the audit firm's willingness to redefine the boundaries of its target region vis a vis the client's position will vary with the nature of the auditor's prior experience with other clients, and the current one.

4.2.3. The degree to which the focal's behavior conforms to the expectations held for it will affect the state of these expectations at the next moment (Figure 1: Box IV, line 2, box I). A client's prior experience with compliant auditing firms may lead to a belief that the current auditing firm will comply. Finding this false, the sender incorporates this new information into its understanding of probable auditor reactions. Thus the client firm's understanding of what actions lie within the auditing firm's coalition target set, and whether the auditing firm will relax or expand the boundaries of that target set so that it will intersect with that of the client, will change. Later, it should be less likely to pressure auditors since its expectation of success is less. The more prior experience that client management has had with accommodating audit firms, the more slowly will the client's expectations of the auditor change.

4.3. Environmental factors affecting the parties interaction (Figure 1: Circle A)

4.3.1. Introduction to the environment section. This theoretical framework sees organizational values as driving the selection of operational goals. The attempt to achieve operational goals dictates the choice of conflict style in an attempt to achieve certain outcomes. So far, this effort has shown that the connection between organizational values, goals, conflict style, and the choice of a feasible coalition target set are affected by organizational culture, the personality of the decision-making team, and the characteristics of the auditor-client relationship. This section argues that these relationships do not exist in a vacuum. Instead, they are affected by characteristics of the organization's environment.

This section explores the effects of the environment on the audit firm and client firm interaction. It does this by presenting important elements of KP's theory of how the organizational environment affects auditor-client relationships. KP's theory combines the insights of Merton's (1966) Role Set Model and Thompson's (1967) characterization of the environment. Merton (1966) argues that the structural characteristics of the role set can influence the behavior of the parties (Role Sender and Focal Party) involved. For example, Merton argues that the ability of a focal party to manipulate the observability of its interactions and to exploit the lack of consistent beliefs among its role senders provides the focal party with the ability to escape role sender sanction.

Thompson (1967) characterized firm environments as varying on three dimensions: *Homogeneity* (complex or simple); *Munificence* (many resources to draw on or very few resources to draw on); and *Dynamism* (the rate of change in the environment). The organization theory literature (e.g., Weick 1979) increasingly argues that the critical feature of an organization's environment with respect to firm behavior is *not the actual state* of that environment, but the firm's *perception of that environment*. Ultimately, the perceptions of the environment are what govern firm action, while the interaction of the accuracy of the firm's perception of its environment and the reality of the environment are critical in determining firm survival.

The nature of the environment surrounding the negotiation process dictates the opportunity set that surrounds the parties. As such, it has a powerful affect on their perceived opportunity set and on their willingness to re-define their feasible coalition target set.

4.3.2. Application of environmental theory to the auditor-client relationship. These effects of the environment on the auditor-client interaction exist on several dimensions. The *Homogeneity Dimension* describes the degree to which different role senders (e.g., the SEC, audit committees, the AICPA, other auditing firms) share beliefs about the audit firm's role (see Thompson 1967). Greater belief homogeneity among the audit firm's role set should lead to greater pressure on the auditor to comply with the shared expectations. Greater belief homogeneity is, in this context, the existence of a common (or shared) coalition get set amongst these disparate role senders as well as a shared view of the technologically feasible region. The audit firm thus loses the ability to play one role sender off against another. Homogeneous beliefs are more likely to exist for pivotal norms of the auditor's role (e.g., the ability to resist client pressure) than for less pivotal norms.

The sender with the greatest power should win the auditor's compliance (e.g., the SEC). That only holds true when all auditor behaviors are equally observable (e.g., Heckathorn 1990) and a coalition of like-minded others has not formed to oppose the most powerful sender's position. In these circumstances, the most powerful sender should be able to impose its target set on the others.

The *munificence* of the economic environment affects the willingness of both senders and focals to engage in certain behaviors (see Thompson 1967). Usually, auditors should be highly invested in their role since discovered non- or misfeasance raises the threat that they will be barred from auditing publicly held corporations, thus threatening the terminal value of firm survival. The relatively high role involvement of the audit firm serves as a signal to the client that the former is likely to resist client pressure. The audit firm, however, may not pressure the client firm to make needed changes if the client faces no imminent risk of failure. Thus auditor non- or misfeasance is less likely to be discovered.

A less competitive market for auditing services may also lead the auditing firm to be tougher on the client. Also, a deteriorating economy signals the SEC to step up the frequency and visibility of its enforcement actions to remind auditors of its power.

The existence of countervailing powers and belief differences between the client, the SEC, AICPA, or other auditing firms allows the audit (focal) firm to use these diverse Sender expectations to evade client demands. For example, audit firms can use information on SEC accounting preferences to dissuade clients from pressing their own views. The real conflict, therefore, is between the senders themselves and not between the auditor and client (Merton 1966).

The *Dynamism* of the environment (i.e., its rate of change) was the third element of Thompson's (1967) characterization of firm environments. Stable environments engender trust because current and potential role senders can observe auditor behavior over time in similar or modestly varied environments. Thus, the audit firm will be expected to behave in ways similar to the ways it previously behaved in a similar environment. Unfortunately the role sender/client may draw incorrect inferences about how the audit firm would behave in very different environments. More volatile environments permit the auditor's behavior to be observed in a variety of environments. Thus inferences about the more enduring traits of the audit firm should be more accurate. Volatile environments have contradictory effects on auditor resistance to client pressure (see Stevens 1991). First, anticipating sender reaction to auditor behavior becomes tougher as client behavior changes to meet the new environment. This could lead to greater auditor caution. The belief that client firms are increasingly likely to switch auditors after several years may lead the audit firm to be warier of agreeing to client requests. Second, the unsettled environment may lead the audit firm to defend its client base by accommodating client requests.

4.4. The time dimension of inter-organizational relationships (Figure 1: Circle C)

KP argued that the passage of time was a critical factor affecting the nature of auditor client interactions. We argue here that the nature of negotiations between the auditor and client will vary with time as well. That is, the length of the auditor-client relationship will affect both the nature of that relationship and the nature of the negotiation that takes place.

4.4.1. The Tuckman (1965) model of group formation applied to role exploration (Figure 1: Boxes I & II, line 1, Boxes III & IV, line 9, circle C). KP used Tuckman's (1965) model of group formation to add a time dimension to their model. KP held that in the first, the *forming*, stage, parties had to invest considerable time and resources in learning about their counterparts. As trust can only develop over time, the forming stage was most likely to be marked by a reliance on ritualistic responses. That is, both parties are likely to be extremely tentative with respect to the other. If the most characteristic response of one of the parties is assertiveness, that response will be most apparent here. Each party is also most likely to put forth statements of its organizational values with the intent that the other should accept the professed image as the actual one. Depending on the amount of information that each side has about the other, these proffered images may come to be accepted as representing the working practice of the other. During this stage, each may also believe that the other will ultimately prove to be malleable to it.

KP postulated that auditor-client relationships also go through a *storming* phase. This phase is inevitable given at the auditors and clients occupy inherently contentious counter-positions, counter-positions dictated by law and reflected in the organizational values and operational goals presented in Table 1. During this stage, each learns just how much real insistence there is on acting in accordance with the firm's organizational values. Thus, the client may learn that the auditor meant it when he or she insisted on values of faithfully representative financial reporting. The client may discover that the audit firm ranked accuracy in financial reporting much more highly than, say, (audit) firm growth and therefore refuses client requests even in the face of a dismissal threat. In contrast, another audit firm may also rank accuracy in financial reporting most highly, but not much more highly than firm growth. In the latter case, a 'values referral' process may take place in which the audit firm decides to maximize its growth rather than ensure maximally accurate financial reporting.

After the *storming* stage, comes the *norming* stage. This stage arises once both parties have learned just how far each can push the other. It is characterized by explicit or implicit agreements as to what constitutes acceptable behavior. The subsequent *performance* stage of the auditor and client is bounded by the inter-organizational norms worked out in this stage.

The time dimension of the model implies that the parties may engage in a sequence of trade-offs, with each party having some of its coalition target set's goals met by the other over time. The expectation that sacrificing some of one's own goals now will be met by the other party's acquiescence to one's own requests later is only understandable if trust has developed between the parties. Choices of conflict styles can help build that trust under certain circumstances. For example, use of a collaborative conflict style may be appropriate where hard work may yield a solution that is consistent with the demands of both parties' target set. In other instances, trust can be engendered by use of a consistent conflict style (e.g., assertiveness or forcing) that lets the one party know which issues that the other party will always be firm about. Inappropriate use of an assertive conflict style, e.g., assertively insisting on an indefensible position, may lead to the adjourning of the relationship since the other party will feel that it is not being treated fairly (see Adams 1963). Whether the relationship actually adjourns may depend on the perceived opportunity set of the side considering termination of the relationship.

Relationships are subject to disruption as changes occur in the parties' environments or there are changes in the internal cultural environments or politics of the parties involved. If the one party is sensitive to the causes of the other's behavioral change, its own behavior will change in response. This is probably a function of the latter party's own pragmatic and psychological investment in continuing the relationship.

4.5. Tying organizational culture and the history of the relationship to negotiation strategy choice

We can use the concept of conflict style to (a) integrate the various literatures surveyed, and (b) tie these theoretical underpinnings to organizational negotiation strategy choice. Since it is the most fundamental, we start with the notion of values. Values can be seen as an outcome of all an organization was, a reflection of what it continues to be, and hopes to be (see Shakun 1988).

The Victor and Cullen framework provides some information as to possible values that the organization may hold. Other potential values include those that underlie the Blake-Mouton conflict management grid – concern for others and concern for self. The latter conception of values differs in some respects from those presented in Table 1, but underlies others. That is, a benevolent basis for decision-making may suggest a concern for others while an egoistic basis suggests a concern for self. The principled criterion for decision-making argues that a third dimension should be added to the Blake-Mouton grid, a concern for duty at the potential expense of self (as measured in lost clients) or others (conceived narrowly as a concern for clients).

While these interpretations are subject to debate, the principled criterion or value should link up well with a concern for truth and beauty and faithfully representative financial reporting. An egotistical locus for decisions may result in an operational goal of pleasing the client in order to retain the same or, alternatively, an operational goal of resisting illegitimate client pressures so as to avoid legal sanction. Also, a benevolent basis for decision-making may imply a concern for others (client) or self or society. While the same basis for decision-making may result in different operational goals, this result has an important cause.

As noted before, the values of different auditing and client firms are reflections of their histories, experiences, the resulting organizational cultures. The expression of the values that both underlie, and are maintained by, these organizational cultures is affected also by (a) the environment surrounding the entity, and (b) the cumulative effects of the history of the client with the auditor.

That said, however, what is the connection between values and conflict (a.k.a., negotiation) styles? Does a concern for self imply that the audit firm will reject a client's illegitimate request, whether that concern arises from a fear of legal liability, client loss due to a damaged reputation, or out of concern about the loss of self-esteem due to an inappropriate concession to a client request? Also, the audit firm can accede to the client request out of a fear of losing a client. With respect to conflict strategy, the same concern for self may lead to strategy choices of forcing (asserting), accommodation, or compromise. It is not easy to predict conflict style choice based on knowing that the organization's ethical climate is egoistic.

But can we say that a conflict style characterizes a corporation or an auditing firm? If so, can it be fairly characterized as existing on the dimensions of 'concern for others' and 'concern for self'? We found no research on this issue. Further, is this conceptualization adequate once we consider the potential ethical bases of organizational action?

Values may also have more direct effect on negotiation strategy choice. For example, a value favoring participative decision-making may lead to a rejection of forcing or avoiding as strategy choices. Similarly, viewing one's own values as always right argues for a strategy of forcing. Whatever the parties' values, the Tuckman model argues that the normative arrangements between the parties will affect each party's willingness to express its own values and seek satisfaction of some of its operational goals. The conflict styles chosen, the avidity with which they are pursued, even the speed with which the values referral process may take place, will be affected by aspects of the presenting issue, the nature of the relationship, and the stage of that relationship.

With benevolence as the basis for decision-making, fewer such problems exist. Given our firm-level focus, we exclude benevolence toward self. Benevolence, therefore, may exist toward the client or society. Benevolence toward the client argues placing the audit firm as high on the concern for others dimension of Figure 2. We defined the client as the target other since the client's needs and demands are far more apparent to the auditor than are societal concerns. If the two dimensionality of the grid is accepted, and to our knowledge it has not been extended to accommodate multiple interested parties, then assertiveness and avoidance are ruled out as audit firm strategic choices. Compromise is also unlikely. Instead, the likely conflict strategy is acceding to the clients reporting preferences, or accommodation.

However, the validity of using a two dimensional grid to conceptualize the auditor-client negotiation situation is questionable. One argument for doing so is that the 'preferences' of third parties enter through the auditor's concern for its self-interest. Thus, fear of legal liability or reputation loss as an anticipated consequence of public scandal may lead the audit firm to assertively advocate strict adherence to GAAP. Also, wishing to view oneself as a professional affects conflict strategy choice similarly. Again, the egoistic basis of decision-making dominates. With respect to viewing one's self as a professional, the position of the profession is important because it defines how a good professional behaves. Thus the profession influences any professional's behavior. Accordingly, the professional firm will refuse to honor client requests that threaten its view of itself as a professional firm. The distance between the client's target set and the auditor's target set may be small enough to yield to a collaborative problem-solving approach, however.

The self-interest dimension of Figure 2 contains a major contradiction. For example, the audit firm's self-interest may be furthered by either catering to, or resisting, the client. In part we deal with this contradiction by postulating that all internal conflicts within both firms have been dealt with before the discussion with the counterpart organization began. The existence of severe conflict within the auditing firm over these issues, while unlikely, may lead to a conflict strategy choice of avoidance.

A more adequate conceptualization of the relationship between concern for self, others, and conflict style can be had by creating a three-dimensional grid. In this, concern for others would be bifurcated into a concern for the client(s) and a concern for the broader polity that receives the published financial statements. In the latter case, all the conflict strategies remain with the difference that collaboration probably becomes more prominent. The difference between collaboration and compromise in this situation lies in the way that the solution is shaped. Compromise suggests that each party will sacrifice part of its initial Position in order to achieve an agreement minimally unsatisfactory to both parties. The motivations of the parties are presumed to be self-interested.

Collaboration, on the other hand, presumes an attempt to work together to achieve an integrative solution. That is, the solution is sculpted to address the most important needs of the parties. Given the three-dimensional framework argued for here, the end result should help the firm avoid a qualifying opinion by making enough changes to the reported accounting numbers. The accounting firm seeks to benefit the client enough to avoid losing it, while avoiding both legal liability and professional sanction. Concern for the profession arises through extra elements in the package that promise to reduce the likelihood that the same financial statement errors will occur in the future.

5. Preliminary empirical support for the proposed model

In order to gain some insight with respect to the applicability of the model, we utilized some of the authors' contacts in the business, auditing, and academic communities in order to find people who should be knowledgeable about auditor-client relationships. These cases are shown in Appendix 1. They provide, in effect, *a very preliminary* documentation of the model. Characterizations of the company, audit firm, and all other descriptive data contained in the cases were those made by the respondents themselves. We chose not to impose our own frame on their perceptions and categorizations.

Our findings were as follows:

- Personality affects the relationships (Case 1, in support of section 4.1.1.1).
- Organizational climate and culture affect the relationships (Case 2, in support of section 4.1.1.2).
- The influence of expertise is used as a tool for managing the perceptions of the other party (Case 3, in support of 4.1.1.3).
- The influence of prior experiences between the auditor and client helped create an entity distinct from either party alone, dubbed here the auditor-client entity (Case 4, in support of section 4.1.2).

– That environmental stressors do influence the auditor-client relationship (Case 1, in support of section 4.2.1).
– Perceptual biases affect the perceptions of the auditor and client firms (Case 1, in support of section 4.2.2).
– Expectations of a party's future behavior are heavily influenced by perceptions of that party's prior behavior (Case 1, in support of section 4.2.3).
– The influence of environmental dynamism and belief homogeneity on the outcomes of the auditor-client relationship (Cases 5 and 6, in support of section 4.3.2).

In addition, we asked our interviewees whether they thought the decision of a client to terminate an auditor, or of an auditor to resign from a client engagement, always indicated an auditor independence problem. None of our respondents thought that it necessarily indicated a problem because there were many other factors involved. These factors included (a) start up costs on getting a new auditor, including having to train the new one to understand the system; (b) not necessarily knowing that the new auditor will treat the client better than the old one did; (c) the sheer unpredictability of dealing with an incompletely understood party; and (d) the loss of institutional memory in the auditing firm that occurs when either key audit firm personnel are rotated, or the auditing firm itself is rotated. Thus, the auditor lacks a desirable richness of information about the context of the financial statements. This lack gives the client a great deal of power over the auditor.

6. Implications and conclusions

The auditor independence literature generally views the relationship between the auditor and client as a strained one. The central irony of this relationship is that the client hires the auditor to report to third parties whether the client is truthfully revealing the outcomes and status of its operations. Yet the client can and does become angry when the auditor discloses, or intends to disclose, apparent misrepresentations and seeks client action on it. Based on the level of sophistication of client management, this should not happen. Both the auditor and client should be aware of the auditor's responsibilities. There are several implications of this model for research in inter-organizational negotiation.

6.1. Negotiation-based implications of the model

A conceptual framework for understanding these relationships can help firm management better organize its thinking about, and thereby its response to, a crisis. For example, being able to characterize the environments facing the firms more descriptively, and to see the inter-relationships between environmental elements and self or other behavior, should enable a clearer analysis of the situation facing the firm. Being able to more finely describe the culture, management style, and predominant personality make-up of the other's management vis a, vis the culture, management style, and predominant personality make-up of one's own decision-making team should enable generation of better negotiating strategies. For example, much sales and consulting work involves boundary-spanning activity. In this activity, the boundary-spanner interacts frequently with those outside his organization. Prior research has shown that such positions carry great stress since the boundary-spanner functions as an interface between two organizations with different cultures values, and operational goals. Thus the pressure on him/her is great. This model is useful because it gives managers better tools for characterizing the counterpart firm, enabling better choice of a boundary-spanning individual. Since the model, in effect, posits that the interaction of the two firms produces a distinct psychological entity with its own traditions, values, and preferences, one firm can select individuals whose personality and values are most congruent with the traditions, values and preferences of the counterpart entity. In the process, the crossboundary problems of communication between the firms should be reduced to assure more successful negotiation outcomes.

As the model's time dimension shows, it is a mistake to view negotiations as occurring primarily at one particular point in time, dealing with some critical issue that the parties disagree about. Rather, negotiations take place throughout the parties association.

The model implies that all actions between the parties represent acts in an ongoing negotiation. Understood thusly, one implication of Tuckman's theory is that audit firm management should avoid over-reacting to problems that arise with a particular client. Communication is critical. Successful communication, of course, requires understanding the communication preferences and styles of the other party. In terms of the personality elements, understanding whether one's counterparts are highly authoritarian or have an external locus of control is important in deciding how to fashion one's messages to them.

Successful negotiations are those that lead to the continuance of the relationship, with behaviors remaining bounded by broader societal norms for the parties' interactions (see Fogarty 1996). Recognition of the multi-dimensional nature of the relationship is certainly more realistic than the models that see the relationship's outcome as being determined by the relative possession of resources or simple economic gain calculations.

6.2. General implications of the model

The general implications of the model are that intense or long-term relationships between organizations give rise to patterned ways of behavior (see Fombrun 1986). Also, the interaction between these parties is affected by the initial values of the parties. Further, as the initial chaos of the relationship gives way to increased mutual understanding, behavioral norms increasingly govern the interactions of the parties. These norms are influenced by general societal norms, industry norms and experiences, and the unique cultures of the parties. In contrast to inter-organizational relationship models, we argue that decision-maker characteristics powerfully influence the outcomes of the interactions.

We believe that this model is generally applicable to inter-organizational relationships that meet several criteria. The relationship between the firms has the potential to be long-lived, and are somewhat intense in nature; where the interactions between the parties are frequent; and where the parties are reciprocally interdependent. These conditions are appropriate for this model because they tie the parties together in relationships where both the start-up costs and the costs to both parties of sundering the relationships are significant. Many interorganizational relationships are of this sort: e.g., the relationship of consultants to client; and long-term specialized suppliers to customers. Thus the model has broad applicability since it incorporates factors that affect all relational (MacNeil 1974: cited in Ring and Van de Ven 1994) inter-organizational relationships. These factors include organizational culture, top decision-making team characteristics, the regulatory environment, the environment's homogeneity, munificence and dynamism, and the role negotiation/role learning that takes place as the parties interact over time.

6.3. Research implications of the model

The research implications of the model flow from the intent of the model. This intent argues that organizational values drive organizational interaction in certain kinds of organizational relationships. Further, that the relationship between organizational values and interaction is moderated by characteristics of the decision-makers, the organizational culture, the history of interaction between the auditor and client (affected also by the values of the two firms), and the nature of the organizational environment.

To test the model, it seems to us that a longitudinal approach to studying specific auditor-client relationships would be desirable. Given that organizational culture and values are involved, and that organizational culture is known to take on a somewhat unconscious, taken-for-granted, character, participant observation would be a desirable feature of this kind of research, as would debriefings of individuals retiring or otherwise leaving subject firms. Collection of oral histories of specific auditor-client relationships would enable the researcher to recover essential elements of the richness of that relationship that is unlikely to be captured by questionnaire or archival types of research. We presented preliminary information of this sort, but collecting this kind of data, especially on a large scale, is a good direction for future research.

Another approach is to read through and try to characterize the auditor-client relationship through study of the Securities and Exchange Commission's Accounting and Auditing Enforcement Releases.[6] Reviews and characterization of newspaper or magazine discussions of auditor-client relationships would also be of great value, as would mining published autobiographies of corporate and accounting profession leaders for nuggets of information that may help to establish the validity of the model presented here. Reading through such congressional staff reports on accounting controversies and investigations, transcripts of congressional hearings and the like should also be of assistance in this regard.

6.4. Concluding remarks

This paper has developed an organization-level, value-driven, model of interorganizational negotiations. We believe that the model will assist conflict and negotiation researchers generally, and students of the auditor-client relationship specifically, in understanding these relationships and in empirically testing these understandings. Obviously, much more work remains to be done in this area.

Notes

1. Note that this paper represents one type of accounting research, research aimed at understanding the nature of the forces that help determine the ability of the auditor to remain 'independent' of the client. Other types of accounting research examine the usefulness of accounting information in making business decisions (e.g., Tjosvole and Poon 1998).
2. See Kleinman, Palmon and Anandarajan (1998) for a thorough discussion of the research literature on auditor-client relationships and auditor independence. (Author – please see notes on manuscript regarding notes 1)
3. This section draws heavily from a similar discussion in KP (1999).
4. The expectations held for the opposite party are formally distinct from the preferences for the other's behavior that each party holds. The preferences for the other's behavior stem from each party's view of how the other party can help the first achieve its operational goals. Expectations, in contrast, describe how each party expects the other to act.
5. In Shakun's terms, that a non-zero feasible region exists or can be created through each (or either) party's re-conceptualization of how and whether a request from the other meshes with its own operational goals and/or virtues. If so, then the negotiation process is an attempt to explore the dimensions of this non-zero feasible region, thereby demonstrating that the expectation that differences can be resolved was correct. It is also possible that a values referral process takes place. As part of this values referral process, one or both parties decide to meet another value, other than the original value. Thus if the CPA firm originally had as a prime value the maintaining of its independence, upon being confronted by an adamant client, the CPA firm might choose to meet the separate value of survival instead.
6. We are indebted to an anonymous reviewer for this suggestion.

Appendix 1

CASE 1:

With respect to the issue of the relationship between personality and conflict style in the auditor-client realm, we collected the following information. The chief financial officer of a mid-sized plumbing company described the CEO of his company as a very strong-willed, uncompromising man who, after a confrontation with the firm's auditor, ordered all of his own employees to walk out of the room with him. The CFO himself, then, spent the rest of the week trying to mollify the outraged auditor out of a fear that he would react by qualifying the firm's report.

CASE 2:

Jill, an ex-audit manager for a midwestern office of a large CPA firm, described two offices of her firm. One office typically spent a great deal of time talking about the profession, GAAS and GAAP, and about what firm members should do because they are accountants. In another office of the same firm, some distance away, the major consideration was how to find way around the rules in order to promote client retention. That latter office audit business was shrinking faster than other offices.

As can be seen from Jill's story, the attitude in this office was very much Egoistic-Self-Interest. This attitude differed a great deal from her characterization of other offices within the firm. These seemed more Principled-Cosmopolitan.

Not all auditor-client interactions can be so neatly pigeonholed as ethical or not ethical, however. One retired Partner-in-Charge for a large regional firm, whom we will call Bill, is now an academic. He stated that sometimes the local CPA firms that were acquired needed a lot of convincing to stand up to their clients since many of the smaller firm CPAs grew up with, and attended family functions of, their clients. These CPAs, he said, didn't understand that being a good accountant meant living up to one's professional responsibilities, not necessarily having a happy client.

CASE 3:

An audit manager for a north eastern NJ, office of a major accounting firm related this story of how a partner-in-charge that he worked with dealt with the obstreperous client depicted in Case 1.

He said that he was got too worried about losing the client because of his confidence in the Partner-in-Charge whom, he felt, had a gift for playing on the client's weak points without being blatant about it. One way to do so, adopted by the Partner-in-Charge, was to send the client materials with respect to how firing the auditor might affect the client. The information sent specifically involved (a) probable receipt of a qualified opinion from a new auditor, (b) the Generally Accepted Accounting Principles that the client position would appear to violate, and (c) the record of negative SEC reaction to positions akin to those that the client desired. As expected, the partner-in-charge's gambit succeeded. Our informant told us that the Partner-in-Charge (PIC) was not known to mention instances when his tactics failed.

CASE 4:

Several CFOs and PICs told us similar stories. Often, especially in longer auditor-client pairings, there are relatively low levels of conflict. As Jim of a Big 5 firm told us, there was "a kind of fluidity" to the longer-term auditor-client relationships, a fluidity that doesn't exist in the shorter term relationships. He believed that the interpretation of the same issues differed as did the auditor's willingness to 'overlook' problems amongst clients.

On the client side, we heard similar things. Two CFOs explicitly contrasted the ways that their auditor treated them versus the scuttlebutt that they heard about how their auditor allegedly responded to other clients. In both cases, they emphasized the 'feeling tone' of the relationship and the notion that there was a linkage between the firms that was not explicable in terms of the formal theory of their relationship, as bounded by law.

What did explain it, we asked?

George O., a controller for a manufacturing firm, seemed to speak for them both when he said that the relationship came to be viewed as a bounded friendship, that is a friendship operating within a set of constraints. Less critical issues got swept under the rug, and other issues got traded off.

CASE 5:

A former partner-in-charge of a national firm, whom we'll call Roger, had been the managing partner of a medium-sized practice office with some 80 to 100 audit staffers. He later became the controller of a company with some $1,000,000,000 in assets. Roger told us of the changes in the profession that he had seen since he started working as an auditor in the 1970's. Specifically, he noted that auditor-client relationships were much more stable then with auditor changes being relatively rare. After the Federal Trade Commission commenced with its attempts to ease professional rules restricting competition, he felt that clients began to shop around for auditors. He further argued that the laissez faire attitude of the Reagan years probably also had an impact, triggering bidding 'contests' between audit firms. The relationship between auditing firms became somewhat less cordial. Increasingly, he noted, it became easier for people to do what they thought would benefit them, irrespective of the impact on others. To Roger, it seemed as if many professionals had lost their bearings, letting client pleasing get out of hand.

CASE 6:

Shortly after the interview with this former Partner-in-Charge, we talked to a CFO for a firm with some $2,500,000,000 in sales. Jack by and large confirmed Roger's story about the change in the behavior of the auditing firms. Jack did emphasize, however, how much the auditor's behavior had shifted back toward rigidity after the savings and loan crisis erupted in the late 1980's. That, and the malpractice crisis, seemed to put more backbone into the auditors, he said.

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