

Auditors Self-Actualization and their Ability to Resist Client Pressure

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Titre: L'actualisation de la personne de l'auditeur et sa capacité de résister aux pressions de son client

Résumé

L'objectif de cette étude est d'évaluer l'existence d'une relation entre l'actualisation de la personne de l'auditeur et sa résistance aux pressions exercées par son client. Les hypothèses de cette étude prédisent que les auditeurs avec un niveau élevé d'actualisation de la personne et un grand attachement à l'indépendance ont une plus grande résistance aux pressions du client. Il est aussi prédit que bien que les auditeurs sont influencés par le pouvoir du client, les auditeurs avec un niveau élevé d'actualisation de la personne seront moins influencés par ce pouvoir. Un sondage par questionnaire a été effectué auprès des associés canadiens en audit des Quatre Grands Cabinets, avec un échantillon final de 136 associés, soit un taux de réponse de 32.9%. Les résultats indiquent que la résistance de l'auditeur aux pressions du client est positivement corrélée avec le niveau d'actualisation de la personne de l'auditeur et son niveau d'attachement à l'indépendance, et négativement corrélée avec le pouvoir du client, en accord avec le cadre théorique de la présente recherche. Contrairement aux hypothèses, les résultats indiquent que la relation entre l'actualisation de la personne de l'auditeur et sa résistance aux pressions de son client n'est pas conditionnelle à un grand attachement à l'indépendance. Une explication possible de ce résultat est que les auditeurs ont un grand attachement à l'indépendance en général, et ne peuvent donc pas être catégorisés selon cette variable. Les résultats indiquent également que l'attachement à l'indépendance est une variable médiatrice de la relation entre l'actualisation de la personne de l'auditeur et sa résistance aux pressions du client. La présente recherche est la première à étudier l'actualisation de la personne de l'auditeur et à obtenir des données empiriques sur l'équilibre du pouvoir dans la relation auditeur-client.

Mots-clés: actualisation de la personne, auditeurs, pouvoir, indépendance, et résistance aux pressions

Title: Auditors Self-Actualization and their Ability to Resist Client Pressure**Abstract**

The objective of this study is to evaluate the existence of a relationship between auditor self-actualization and auditor resistance to client pressure. The hypotheses of this study predict that auditors with a high self-actualization and a stronger attachment to independence will show a higher level of resistance to client pressure. It is also predicted that while auditors are influenced by client power, auditors with a higher self-actualization will be less influenced by client power. A mail survey was conducted of Canadian Big 4 audit partners, with a final sample of 136 partners, for a 32.9% response rate. The results show that auditor resistance to client pressure is positively correlated with auditor self-actualization and auditor attachment to independence and negatively correlated with client power, supporting my general model. Contrary to the hypotheses, results show that the relationship between auditor self-actualization and resistance to client pressure is not conditional to a higher attachment to independence. A possible explanation is that auditors have a higher attachment to independence, meaning that they can not be categorized as higher or lower attachment. Results also indicate that auditor attachment to independence is a mediating variable in the relationship between auditor self-actualization and auditor resistance to client pressure. This study is the first to study auditor self-actualization, and to provide empirical evidence on the power balance in the auditor-client relationship.

Key words: self-actualization, auditors, power, independence, and resistance to pressure

Auditor self-actualization and their ability to resist client pressure

Introduction

Auditor independence has always been an important challenge for the profession, and the individual auditor's ability to resist client pressure is a key element to auditor independence. This ability is particularly important in the context of auditor-client negotiations, knowing that auditors negotiate financial statement issues with the majority of their clients (Gibbins, Salterio & Webb, 2001). As a result, auditors often find themselves in a dilemma between their professional independence requirements and their desire to satisfy their clients in order to maintain the business relationship (Sanchez, Agoglia & Hatfield, 2007).

Prior research concludes that audited financial statements are the result of auditor-client negotiations (Iyer & Rama, 2004). "[...] It is widely accepted that financial statements inherently often entail the interpretation and application of complex, imprecise reporting standards and the development of estimates that may involve considerable judgment. [...] Thus, the auditor and client must resolve difficult, contentious matters that arise" (Brown & Wright, 2008, p.91). The auditor-client negotiation process and associated strategies are well documented in audit literature (Brown & Wright, 2008). Previous studies identified various personal (auditor ethics (Gul, Ng & Wu Tong, 2003; Windsor & Ashkanasy, 1995) and experience (Brown & Johnstone, 2009; Moreno & Bhattacharjee, 2003)) and situational

(risk and power (Braun, 2001; Casterella et al., 2004; Felix, Gramling & Maletta, 2005; Nagy, 2005, Wright & Wright, 1997) factors influencing auditor decision-making. The question of power between the auditor and the client is also complex and has not been fully understood and resolved (Brown & Wright, 2008). Previous research has fallen short at fully explaining auditors' personal ability to resist client pressure in an auditor-client negotiation context. Why do some auditors resist better than others?

This study is the first to integrate the concept of self-actualization, a key theory in humanistic psychology, to an explanatory model of auditors' resistance to client pressure, using Emerson's (1962) power and social exchange theory. According to Rogers (1980), self-actualization is defined as the individual's motivation to reach his full potential. Individuals with high self-actualization have a greater independence towards their physical and social environments (Maslow, 1973). They will act according to their own values rather than complying with external pressures and expectations (Leclerc et al., 2002). For the auditor, this means an increased ability to act according to one's own beliefs and values, without getting influenced by peers expectations and client pressures. It is important here to distinguish the auditor's personal values with the profession's core values; the individual auditor can have values that are different from the values prioritized in the audit profession. To account for that differentiation, this study includes a measure of auditor's attachment to independence as a proxy for auditor values. The objective of this study is to evaluate the existence of a relationship between auditor self-actualization and auditor resistance to client pressure, considering auditor values in terms of attachment to

independence and the power balance in the auditor-client relationship. Emerson's social exchange theory was analysed in the auditor-client relationship by Nichols and Price (1976), who concluded in a power balance favouring the client. The lack of empirical results in their study and the important changes in the audit profession since the 70s make it necessary to re-evaluate their conclusion and the role, structure and balance of power in auditor-client relationships.

A survey was conducted with Canadian audit Big Four partners, investigating the relationship between the level of resistance to client pressure audit partners showed in a past situation, and their level of self-actualization. This study draws upon the auditor-client negotiation literature, but focuses on the negotiation outcome rather than the process.

The results suggest that auditors with a higher level of self-actualization show a higher level of resistance to client pressure, supporting the model and hypotheses. Auditor attachment to independence is also an explanatory variable for auditor resistance to client pressure, and it was found to be a mediating variable in the relationship between auditor self-actualisation and auditor resistance to client pressure. Furthermore, auditors are influenced by client power, but believe that the power in the auditor-client relationship is balanced. In addition, as predicted, power balance appears to have a higher influence on the resistance of auditors with lower levels of self-actualization.

The remainder of this paper proceeds as follows: the next section provides the theoretical background and develops the hypotheses. The third section outlines the methods, and is followed by the findings section. Finally, the last section concludes the paper with a discussion of the results, contributions and limitations of the study.

Theoretical background and hypotheses

Financial statements negotiation stems from the fact that the auditor is not always willing to provide an unqualified opinion on the financial statements as proposed by management. When an auditor discovers what he believes to be a material misstatement to the financial statements, he will demand that management corrects that misstatement; the client will then often embark on a negotiation process in order to convince the auditor of the rightfulness of his position (Gibbins, Salterio & Webb, 2001). The auditor will often feel pressure to adhere to the client position, pressure of which he is not always aware (Moore et al., 2006). The auditor's ability to resist client pressure will influence the final result of the negotiation and consequently, the audited financial statements.

This study integrates personal and situational factors in an auditor-client negotiation situation providing a most complete explanatory model. Self-actualization theory, which has never been studied in relation with auditor independence, provides a new perspective on understanding auditor-client negotiation and specifically the auditor's ability to resist client pressure, as self-actualization increases one's ability to act according to his own values and to resist societal pressures (Leclerc et al., 2002). Therefore, if those values

prioritize independence, the auditor will exhibit a greater resistance to client pressures. Combined with an assessment of power balance in the auditor-client relationship, this model can help explain audit quality variations. The following subsections define and develop those variables in relation with the auditor's ability to resist client pressures, in line with the research objective of evaluating the existence of a relationship between auditor self-actualization and auditor resistance to client pressure.

Self-actualization

Self-actualization theory was developed by Maslow (1954), in conjunction with motivation theory and the hierarchy of needs. According to the hierarchy of needs, self-actualization is at the highest level, each level representing a motivation development level. Once all the inferior needs are satisfied, the individual is liberated of them, and follows his self-actualizing tendencies, reaching to develop his full potential. According to Leclerc et al. (2002), it is a developmental process of one's potential, in congruence with one's self-image and experience. Individuals with a high level of self-actualization present a number of characteristics relevant for auditor independence. According to Maslow, they are motivated by their own personal development, and not by external rewards; they are independent towards their environment. They have a contributive attitude, aiming to contribute to society rather than be retributed, and are driven by intrinsic motivation (O'Connor & Yballe, 2007). Furthermore, those individuals are capable of resisting societal pressures and expectations, thinking and acting according to their own values and beliefs (Leclerc et al., 2002). Consequently, it can be expected that the auditor with a higher level of self-actualization will have a greater ability to resist client pressure, to act according to his own

values, to adapt to the stress created by client conflict and to draw from past experiences to develop his capacities.

Auditor values and attachment to independence

Almost all definitions of “personal values” share the following characteristics (Karacaer et al., 2009): values are beliefs, they are in relation to the individual’s behaviours and goals, they transcend situations, guide choices and behaviour evaluations, and follow an order of importance. An example of a representation of auditor values in audit literature is their identification to the audit profession (Bamber & Iyer, 2007). The auditor who identifies with the profession will be more capable of resisting client pressure than the auditor who identifies to his client (Bamber and Iyer, 2007). Literature on auditor-client relationships shows that a greater attachment between auditor and client represents a threat to independence (Bamber and Iyer, 2007; Meyer, Rigsby and Boone, 2007). It is therefore to be expected that an auditor with a stronger attachment and identification to independence will be less influenced by his client and will show a greater resistance to client pressure. In other words, when an auditor has a strong attachment to independence, it is to be expected that he will want to resist to client pressure. Will he be capable of resisting? The auditor’s level of resistance will then be determined by his ability to resist client pressure, which is linked to his level of self-actualization. A higher level of self actualization will allow the auditor to act according to his own values, and therefore, if he has a strong attachment to independence, to have a greater resistance to client pressure. In the case where his attachment to independence is weaker, the auditor is expected to have a lower resistance

to client pressure, and his level of self-actualization is therefore not expected to have an influence on his resistance to client pressure.

H1a: When the auditor has a higher level of attachment to independence, his level of self-actualization will have a positive influence on his level of resistance to client pressure.

H1b: When the auditor has a lower level of attachment to independence, his level of self-actualization will not have an influence on his level of resistance to client pressure.

Maslow (1973) describes individuals with a higher self-actualization as being independent towards their environment and their peers; they are motivated intrinsically and not by external rewards. For auditors, it is likely that it will also mean a higher attachment to the professional concept of independence. It is expected that the auditor with a higher level of self-actualization will have a stronger belief in the importance of independence. A higher attachment to independence will mean a higher resistance to client pressure, as the auditor will have a stronger desire to resist. Therefore, it is expected that the relationship between self-actualization and resistance to client pressure is mediated by attachment to independence; it is expected that self-actualization will have an indirect effect on auditor resistance through attachment to independence.

H2: Auditors with a higher level of self-actualization will have a higher attachment to independence, leading to a higher resistance to client pressure.

Power balance in the auditor-client relationship

Power has been studied in accounting and audit literature in various perspectives (Cooper and Robson, 2006). Lukes (1976) describes three different dimensions of power, categorizing them mainly on the absence or presence of observable conflict. The first dimension is relevant to situations where there is an observable conflict or disagreement (Bachrach and Baratz, 1962). This first dimension is where we can position Emerson's theory, which defines power as follows: "The power of actor A over actor B is the amount of resistance on the part of B which can be potentially overcome by A" (Emerson, 1962, p.32). There is a disagreement between the two parties, and the party holding power can influence the other party to comply to his position. The second dimension relates to conflict avoidance. Conflict exists, but is not observable, as the party exercising its power manages to prevent the other party from expressing disagreement (an example of this is agenda setting) (Malsch and Gendron, 2011). Finally, in the third dimension, power and conflict become completely invisible. The individual's values are modified to conform to the values of the party exercising power, and become contrary to the individual's own interests (Malsch and Gendron, 2011). All three of Luke's dimensions likely play a role in the auditor-client relationship. Nonetheless, the second and third dimensions are difficult to observe or measure empirically, and their application goes beyond the scope of the current research. Therefore, only the first dimension of power will be considered in our conceptual framework, in the form of Emerson's social exchange theory.

According to Emerson (1962), power in a relationship between two actors is mutual and bidirectional, and is either balanced or unbalanced in favour of one of the two actors. The

power of A over B is defined as the level of resistance by B that can be overcome by A, and is equal to the dependency of B on A.

$$P_{ab} = D_{ba}$$

$$P_{ba} = D_{ab}$$

The dependency of actor B on actor A is directly proportional to the emotional investment of B in the goals reached through the AB relationship, and on the availability of those goals outside the AB relationship. The power in the relationship can be balanced or unbalanced in favour of either actor.

Applied to the auditor-client relationship, it means that the auditor and the client are both dependent on each other and both simultaneously hold power over the other. An unbalanced relationship favouring the client could result in a failure of independence. In a negotiation over a financial statement misstatement, the client would have the ability to persuade the auditor to adhere to his position, resulting in potentially biased audited financial statements. According to Nichols and Price (1976), the goal of the auditor through the auditor-client relationship is present and future audit fees. The client's power can be exercised through a threat of request for proposal for the audit. Audit literature has identified situational factors influencing the auditor such as magnitude of fees (Braun, 2001), client size (Wright & Wright, 1997) and length of the auditor-client relationship (Chen, Lin and Lin, 2008; Myers, Myers and Omer, 2003). This is a simplification of reality, as each auditor will be influenced differently by external elements such as monetary

compensation in the form of audit fees. The auditor's reaction will vary according to individual factors, such as his level of self-actualization and attachment to independence.

For the client, the goal reached through the relationship is an unqualified audit opinion on the company's financial statements, a qualified opinion having important potential negative consequences for the company (Chen, Sun and Wu, 2010). The auditor's power can be exercised through a qualified opinion, but that would likely sign the termination of the relationship (Vanstraelen, 2003). Even if one party had a power advantage over the other, it is not certain that he would exercise that power, as it is essential for both parties to find a common ground in the negotiation of financial statement issues (Brown & Wright, 2011).

RESISTANCE ↔ PRESSURE

Actor	Auditor (A)	Client (C)
Goals	Audit and other fees, present and future	Unqualified audit opinion
Dependency (D)	Emotional investment Probability of replacing the client	Emotional investment Probability of replacing the auditor by an auditor accepting the client's preferred accounting treatment
Power (P)	Qualified audit opinion	Termination of the auditor-client relationship

If $P_{ac} = P_{ca} \rightarrow$ BALANCED

Figure 1: Auditor-client relationship components according to Emerson's social exchange theory

An individual with a high level of self-actualization will have a greater ability to adapt to stressful situations (Leclerc et al., 2002) and to resist external pressures. In a power balance situation favouring the client, it is expected that the auditor's level of resistance will be higher when auditor attachment to independence and self-actualization are high. Power is expected to influence the auditor only when self-actualization is weak, as individuals with a greater level of self-actualization are not influenced by peer pressure, external pressures or external factors such as monetary compensation. Therefore, an auditor with a great level of self-actualization will have a greater ability to resist client pressure. An auditor with a higher attachment to independence will have a greater desire to resist client pressure. When the auditor combines those two personal characteristics, it is expected that power balance will have no influence on his resistance to client pressure.

H3: When auditor attachment to independence and self-actualization levels are high, power balance will have no influence on his resistance to client pressure.

On the other hand, even if the auditor has a great attachment to independence and therefore a strong desire to resist client pressure, if he has a low level of self-actualization, he will be less capable of resisting. Even if his level of attachment to independence is high, and he consequently has a strong desire to resist client pressure, with a low level of self-actualization, he will not have a great capacity of doing so, and will therefore be influenced by client power. The auditor with a lower level of self-actualization is expected to be influenced by client power, even if his level of attachment to independence is high.

H4: When the auditor has a high level of attachment to independence and his level of self-actualization is low, power balance will influence negatively his level of resistance to client pressure.

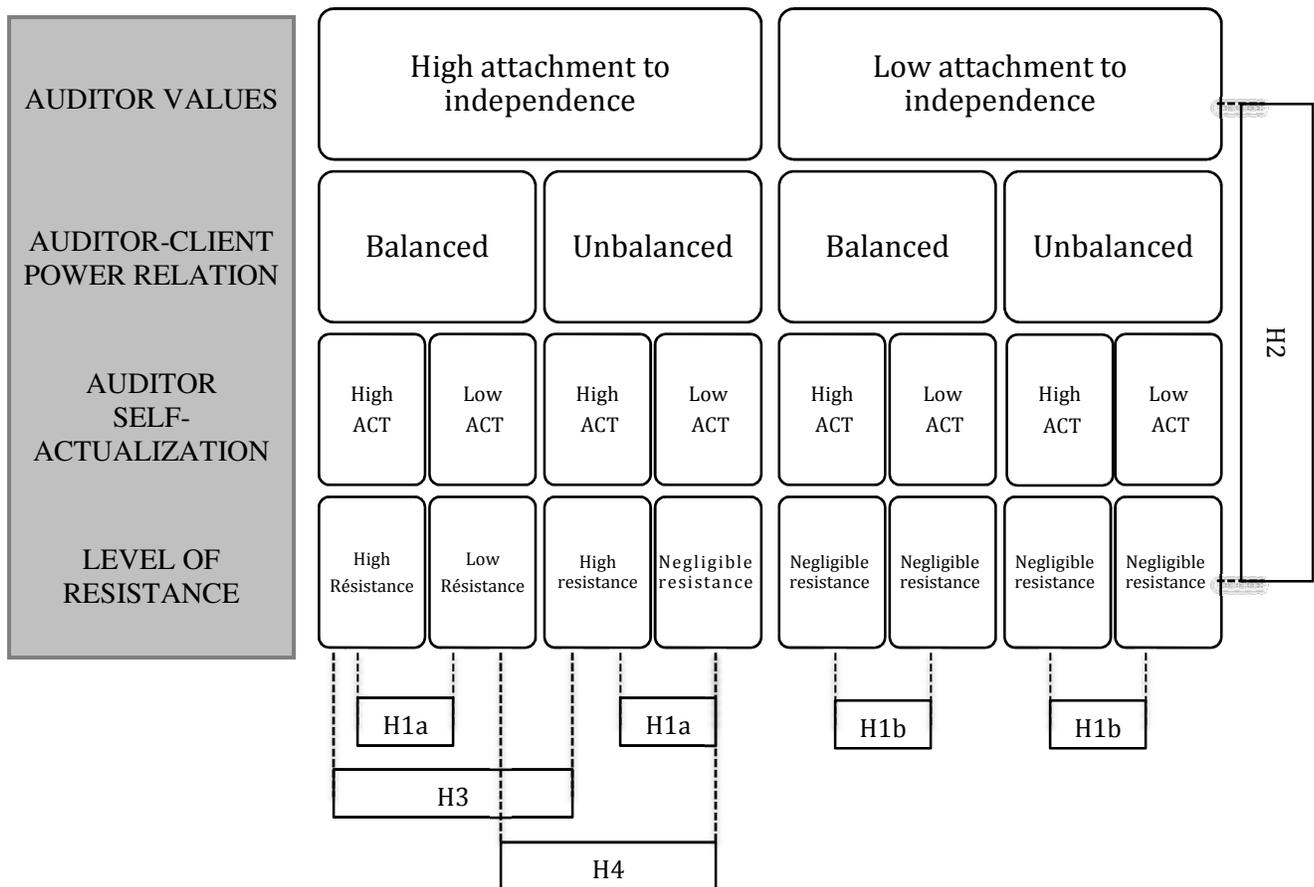


Figure 2 : Conceptual framework and hypotheses

In summary, we argue that auditors with higher self-actualization will have a stronger attachment to independence, will be more able to act according to their own values, and therefore will have a higher resistance to client pressure. Furthermore, auditors with a high self-actualization will be less influenced by client power, and will also be more likely to

view the power relationship as balanced. Power is defined through mutual dependency; individuals with a high level of self-actualization are more independent and less influenced by external factors. Auditors with a higher level of self-actualization are also expected to have a higher attachment to independence, which in turn also increases their level of resistance to client pressure.

Data and Methods

Participants and data collection

Our survey was mailed to all 680 Canadian Big Four audit partners registered with CPAB (Canadian Public Accountability Board). This choice was based on a few factors. Partners are the main actors in the auditor-client negotiation process, sign the audit report, and are therefore ultimately responsible for the quality of the audit; they make the final decision concerning misstatements found during the audit (Gibbins, Salterio and Webb, 2001). This hierarchical level is therefore the most appropriate for the objective of our research. As the majority of public companies are audited by Big Four firms (87% of companies listed under the Toronto Stock exchange according to Tyranski (2008)), it is appropriate to concentrate our sample in those firms, as it also allows for greater comparability between participants. The CPAB list is, at the best of our knowledge, the only Canadian publically available list of audit partners, and contains all Canadian partners authorized to audit public companies.

Of those 680 potential participants, 267 were removed from the sample for various reasons, the biggest being that management of one of the Big Four firms forbid their partners from participating, eliminating 225 partners from our potential sample. The other removed names were for undelivered surveys (38), not practicing in audit (2) and not being a Canadian partner and therefore not part of the targeted population (1). Individual phone calls followed that first mailing over the two following weeks, in which I introduced myself and answered any questions they may have had on the study. A second mailing was done two weeks after the first one, and a third follow-up was done by email three weeks after the first mailing. 80 responses were obtained after the first mailing, and 53 more responses after the second mailing, with three additional ones by email. In total, 136 audit partners from three Big Four firms across Canada participated in the survey, resulting in a final response rate of 32.9%, which was higher than expectations and higher than similar studies with Canadian partners (16.8% for Gendron, Suddaby and Lam, 2006 and 20% for Cormier and Lapointe-Antunes, 2006).

Non response bias was controlled for using two methods: comparing with known population characteristics and extrapolating non respondents through late respondents. Our participants represent our population by demographics; our final sample consists of 18% women and 82% men, which is consistent with gender proportions in Big Four audit partners (Catalyst, 2012). Our sample also consists of approximately 18% French speakers and 82% English speakers, which seems representative of the population geographical dispersion. For the extrapolation, we also used two methods: we compared by separating first mailing respondents and second mailing respondents, and we also compared by

splitting the participants into two even groups per reception order. The only variable influenced by responsiveness is RESIST. It appears that our late respondents show a higher resistance, which is inconsistent with social desirability bias. Therefore, I consider the non response bias to be minimal. Social desirability bias is controlled for by the anonymity of the questionnaires, and the fact that they were physically removed from the researcher while responding. Furthermore, social desirability would likely increase resistance amongst all participants, which should not change the relationships between that variable and the other variables.

In order to obtain a significant sample, a few things were taken into consideration when developing the questionnaire. Audit partners are extremely busy professionals and in order to encourage responses, the questionnaire was constructed in such a way as not to take more than a few minutes to complete. The questionnaire was developed simultaneously in French and English, and was mailed to each partner in the appropriate language according to geographical location.

Questionnaire and variables

The questionnaire consisted of four sections: I-Demographic questions, II-Values, III-Pressure situation and IV-Measure of Actualization of Potential¹. The demographic questions are typical in accounting literature, sex, age, years of audit experience, years of total experience, years of partner experience and generally used language. Two more questions, province and firm, were removed following comments made during the pre-test

¹ The questionnaire is available upon request.

and after the first mailing. The variable measurements are presented in Table 1 and detailed in the following subsections.

SYMBOL	SECTION	VARIABLE	TYPE	CODING
Main variables				
ACT	IV	Measure of Actualization of Potential	Construct	0 to 100
VALUES	II	Attachment to independence	Construct	0 to 100
POWER	III Q2	Power balance	Continuous	0 to 100
RESIST	III Q4	Auditor's resistance to client pressure	Continuous	0 to 100
Control variables				
PRESS	III Q1	Level of client pressure	Continuous	0 to 100
SUBJEC	III Q3	Adjustment subjectivity	Continuous	0 to 100
Demographic variables				
SEX	I Q1	Auditor gender	Discreet	M F
AGE	I Q2	Auditor age	Continuous	Years
EXP	I Q3	Years of audit experience	Continuous	Years
EXPART	I Q4	Years of partner experience	Continuous	Years
EXPTOT	I Q5	Total years of experience	Continuous	Years
LANGUA	I Q7	Usual language	Discrete	French English Other
LANGQ		Usual language and questionnaire language concordance	Discrete	0 1

Table 1 : Variable measurements

Measurement of self-actualization

Different measures of self-actualization have been developed over the years. The most commonly used instrument, the Personal Orientation Inventory (POI) (Shostrom, 1964), takes about an hour to complete, making it unsuitable for the use on audit partners, because of their limited time availability. Another instrument is the brief index of self-actualization (BISA) (Sumerlin et Bundrick, 1996), which was based solely on Maslow's work, effectively ignoring all the other contributions to the concept; we also rejected that choice.

The MAP questionnaire developed by Leclerc et al. (2002) was selected for a few reasons. It was developed based on the work of the two pillars of the concept, Maslow and Rogers, and also on all work published on the concept between 1985 and 1977, allowing it to fully capture the concept (Leclerc et al., 2002). It is a self-report measure and can be completed in 5-10 minutes, making it suitable for the use as part of a questionnaire. It was also developed in English and French, making it ideal for Canadian participants. Furthermore, the concepts and dimensions of the MAP directly related to the theoretical concepts of this study, particularly the individual's ability to act according to his own values and to resist external pressures (Leclerc et al., 2002). The MAP consists of 27 questions with two main dimensions and 8 sub-dimensions, and its validity was demonstrated by previous studies (Gana et al., 2002; Leclerc et al., 1999; 2002; Lefrançois et al., 2002). A slight modification was made to the measure as I used a visual analog scale (VAS) from 0 to 100 instead of a Likert type scale; this modification is meant to reduce response bias (Isaac and Michale, 1995).

Measurement of Values

I operationalized the VALUE variable as auditor's attachment to independence. The auditor with a strong attachment to independence, with strong convictions about the role of his profession in protecting the public, is expected to have a higher desire to resist client pressure. Two measures of independence were found in audit literature (Gendron, Suddaby & Lam, 2006; Ahmad and Taylor, 2009) and were analysed for appropriateness in the current study in terms of population comparability, reliability and validity. The questionnaire developed by Gendron, Suddaby and Lam (2006) was selected. It consists of

four questions about the importance of independence in the audit profession, to which auditors indicate their level of agreement. It was developed based on interviews with external auditors and used for a similar population to the current research's population, meaning Canadian external auditors. Furthermore, the simplicity and shortness of this instrument are also a positive element for this research. In an objective of triangulation of the attachment to independence concept, a fifth question was added to the four question instrument, as a more direct measure of the attachment to independence. All five questions are presented in table 2. The use of multiple questions allows for capturing different dimensions of the attachment to independence concept, which will bring a more complete understanding of the model and interrelations between the variables.

Item	N	Mean	SD
Q1: I believe that independence is one of the main foundations of the CPA profession.	135	91.2	11.3
Q2: I believe that the profession's independence requirements need to be strictly enforced in every sphere of activities in which public accounting firms are involved.	135	79.5	23.4
Q3: I think the profession would be better off if the profession's independence requirements for CPAs in public practice were more rigorous.	134	24.9	25.9
Q4: I think that the business community in general would be better off if the profession's independence requirements for CPAs in public practice were more rigorous.	134	24.2	25.1
Q5: I prioritize independence in my relationships with my clients.	134	86.3	16.2

Table 2 : Attachment to independence construct item means and standard deviations

Measurement of Power and Resistance

For this section of the questionnaire, the auditor was asked to refer to a past situation in which he felt significant pressure from the client to conform to their position, for example over an accounting disagreement. The auditor was asked to refer to the most recent situation if such a situation occurred more than once, to describe the situation without identifying the client and to answer all questions of that section in relation with the

situation. An example of such a situation was provided, adapted from Gibbins, Salterio and Webb (2001)². Power was measured through auditor perception of the power balance in this particular negotiation situation, using a VAS from 0 to 100.

In auditor-client negotiations literature, different approaches have been used to assess negotiation outcome, often using a dichotomical (book or waive) approach. But as discussed by Gibbins, Salterio and Webb (2001), the final negotiation outcome is often a compromise, somewhere between the initial positions of the auditor and the client. A visual analog scale, with the extremes representing each initial position, was used to capture all intermediate outcomes. Resistance was measured by how far from the initial position the final result is.

Reliability of ACT and VALUES

The reliability of the MAP was confirmed by Cronbach's alpha resulting in 0,83. The other construct measure, the attachment to independence, was less direct. By including the four items of the scale as developed (Gendron, Suddaby and Lam, 2006), the resulting Cronbach's alpha was 0,611. When the more direct fifth question was included, the Cronbach's alpha decreased to 0,556. I concluded that the construct must be measuring more than one dimension of the auditor's attachment to independence. A factorial analysis revealed two dimensions, comprised of Q1 and Q5 (Cronbach's alpha = 0,664) and Q2-Q3-Q4 (Cronbach's alpha = 0,685). The hypotheses were tested with all three constructs,

² The example was the following :

CPA, from the firm XYZ, is coming back from a meeting with client ABC Inc. Regarding an accounting issue on which he is in disagreement with the accounting method applied by management. During the discussions, CPA got the impression that the client would be unhappy if required to modify the financial statements.

presented as a, b and c for each hypothesis. The first construct (VALUES) encompasses a broader definition of independence. The second construct (VALIND) measures attachment to a more fundamental concept of independence and the third construct measures attachment to a more rules based independence (VALRUL), as presented in Table 3. The relatively low Cronbach's alphas are explained by the low number of items comprising each construct.

Variable	Items	Mean	Median	Cronbach's alpha
VALUES	Q1, Q2, Q3, Q4	61.2	59.7	
VALIND	Q1, Q5	88.7	92.8	0.664
VALRUL	Q2, Q3, Q4	42.8	37.7	0.685

Table 3: Reliability of the constructs measuring attachment to independence, means and medians.

Findings

Main results

Table 4 provides the demographic portrait of the participants whereas Table 5 presents descriptive statistics for the main variables, and correlations analysis. If we examine those tables, we can highlight a few key elements. We see that auditors have a strong attachment to the general concept of independence (VALIND, mean = 88.7) and a high level of self-actualization (ACT, Mean = 72.2). They also perceived a high level of pressure from their clients during the selected situation (PRESS, mean = 69.3), yet they consider the power in the auditor-client relationship in that situation to have been balanced (POWER, mean = 41.3, median = 50). They exhibit a high level of resistance to client pressure (RESIST, mean = 77.9).

Variable	Name	N	Number	Proportion	Mean	SD	Median	Min	Max
Sex	SEX	133			-	-	-	-	-
Female			24	18.0%					
Male			109	82.0%					
Usual language	LANGUA	134			-	-	-	-	-
French			24	17.9%					
English			110	82.1%					
Age	AGE	132	-	-	48.6	7.2	48	35	63
Audit experience	EXPAUD	134	-	-	25.2	7.2	24	10	41
Total experience	EXPTOT	134	-	-	25.6	7.0	24	14	41
Partner experience	EXPART	134	-	-	13.5	8.0	13	1	31

Table 4: Demographic data on respondents

General correlations (Pearson) between the main variables were also analysed. The relationships between the main variables are consistent with the theoretical model. Auditors with a higher level of self-actualization (ACT) have a greater attachment to independence (VALIND, $r=0,295$, $p=0,000$), have a higher resistance to client pressure (RESIST, $r=0,121$, $p=0,085$) and tend to view client's power as lesser (POWER, $r=-0,173$, $p=0,025$). Furthermore, auditors with a greater attachment to independence (VALUES; VALIND) also show a greater resistance to client pressure (RESIST) (VALUES, $r=0.161$, $p=0.035$; VALIND, $r=0,310$, $p=0,000$). Finally, when the client power is lower (POWER), auditor resistance to client pressure (RESIST) is higher, as expected logically ($r=-0,307$, $p=0,000$).

Variable	Median	Mean	SD	1	2	3	4	5	6	7
1. ACT	72.8	72.2	7.4							
2. VALUES	59.7	61.2	12.7	0.098						
3. VALIND	92.8	88.7	12.1	0.295 ***	0.390 ***					
4. VALRUL	37.7	42.8	19.5	-0.017	0.925 ***	0.011				
5. POWER	50.0	41.3	19.4	-0.173 **	-0.011	-0.245 ***	0.091			
6. PRESS	73.5	69.3	19.3	0.026	0.086	-0.099	0.135 *	0.214 ***		
7. SUBJEC	51.4	52.8	24.9	-0.213 ***	0.024	-0.007	0.029	0.002	0.026	
8. RESIST	89.0	77.9	16.7	0.121 *	0.161 **	0,310 ***	0.046	-0.307 ***	-0.013	-0.109

Table 5: Medians, means, standard deviations and Pearson correlations

*p<0.10, **p<0.05, ***p<0.01

I tested the influence of demographics and control variables. The only variable that has an influence on the auditor resistance is their number of years of audit partner experience (EXPART, bilateral t-test, p=0,058). Therefore, only the variable EXPART is used as control variable in the tests of hypothesis.

Tests of hypotheses

The hypotheses were tested through regression analysis. The general regression model is as follows:

$$\text{RESIST} = \beta_0 + \beta_1 \text{VALUES} + \beta_2 \text{ACT} + \beta_3 \text{POWER} + \varepsilon$$

The main variables (RESIST, VALUES, VALIND, VALRUL, ACT, POWER) were tested for normality, as it is a postulate for regression, and were not found to significantly deviate

from normality. Each of the hypotheses was tested with all independence attachment measurements, VALUES, VALIND and VALRUL.

The first two hypotheses are based on the assumption that the influence of self-actualization on auditor resistance to client pressure is conditional to their attachment to independence. The auditors were separated in two groups: high attachment and low attachment to independence, using the median with a 95% confidence interval as a dividing point³. For H1a, only auditors with a high level of attachment to independence were included in the regression, as the hypothesis states that for those auditors, self-actualization will have an influence on their resistance to client pressure. The results are shown in Table 6 for both H1a and H1b. H1a was not supported with VALIND, meaning that when the auditor's attachment to independence as a fundamental concept is high, ACT does not influence his level of resistance to client pressure, nor does any other variable. For the more general construct VALUES and for attachment to rules based independence VALRUL, H1a was not supported either, but POWER was found to have an influence in the regression, meaning that even when auditors have a high attachment to the general construct of independence and to rules based independence, they are influenced by client power. Therefore H1a is not supported.

For H1b, only auditors with a lower level of attachment to independence were included in the regression, with the expectation that their self-actualization will have no influence on

³ The auditors with a level of attachment to independence close to the median were not included in either group; this method allows for participants near the median to not be falsely categorized (Streiner, 2002).

their level of resistance to client pressure. H1b was not supported with VALUES or VALIND, but was supported with VALRUL.

Hypothesis	N	Independence measure and level	Independent variables	Beta	Dependent variable	t	P-value
H1a	52	VALUES <i>High</i>	ACT	-0.106	RESIST	-0.771	0.222
			EXPART	0.141		1.035	0.153
			POWER	-0.312		-2.283	0.013**
H1a	53	VALIND <i>High</i>	ACT	-0.010	RESIST	-0.069	0.472
			EXPART	-0.098		-0.683	0.249
			POWER	-0.156		-1.107	0.137
H1a	52	VALRUL <i>High</i>	ACT	0.068	RESIST	0.506	0.308
			EXPART	0.051		0.371	0.356
			POWER	-0.235		-1.712	0.047**
H1b	52	VALUES <i>Low</i>	ACT	0.136	RESIST	1.007	0.160
			EXPART	-0.046		-0.317	0.377
			POWER	-0.335		-2.316	0.013**
H1b	55	VALIND <i>Low</i>	ACT	0.138	RESIST	1.111	0.136
			EXPART	0.111		0.859	0.197
			POWER	-0.389		-2.993	0.002**
H1b	50	VALRUL <i>Low</i>	ACT	0.217	RESIST	1.629	0.055*
			EXPART	0.047		0.339	0.368
			POWER	-0.350		-2.522	0.008**

Table 6 : Regression coefficients for H1a and H1b
Unilateral p-values *p<0.10, **p<0.05, ***p<0.01

So how does self-actualization influence the auditor's resistance? H2 states that the higher self-actualization, the higher attachment to independence, the higher auditor resistance will be. For a mediation relationship to be confirmed, three levels of regressions are required: a (1) regression of the independent variable (ACT) on the mediating variable (VALUES, VALIND or VALRUL), a (2) regression of independent variable (ACT) on the dependent variable (RESIST) and a (3) regression of the mediating variable (VALUES, VALIND or VALRUL) on the dependent variable (RESIST). A mediation relationship is confirmed when three conditions are met (Baron and Kenny, 1986): the independent variable is significant

in regression (1) and (2), and the mediating variable is significant in regression (3). A mediation relationship is confirmed for VALIND (Table 7); when the auditor has a high level of self-actualization, his attachment to independence is greater, and as a result, he exhibits a higher resistance to client pressure. A path analysis also supports that conclusion (Figure 3), with a total effect of the model (0,120) greater than the direct effect of ACT on RESIST (0.031). The model for the path analysis is shown in Figure 3, showing the paths, and standardized regression coefficients.

Independence construct	Regression	N	Independent variables	Beta	Dependent variable	T	p-value
VALUES	(1)	133	ACT	0.098	VALUES	1.127	0.131
	(2)	129	ACT	0.121	RESIST	1.377	0.086*
	(3)	128	ACT VALUES	0.103 0.151	RESIST	1.166 1.712	0.123 0.045**
VALIND	(1)	134	ACT	0.295	VALIND	3.552	0.000***
	(2)	129	ACT	0.121	RESIST	1.377	0.086*
	(3)	128	ACT VALIND	0.031 0.301	RESIST	0.355 3.399	0.362 0.000***
VALRUL	(1)	134	ACT	-0.017	VALRUL	-0.191	0.425
	(2)	129	ACT	0.121	RESIST	1.377	0.086*
	(3)	128	ACT VALRUL	0.118 0.047	RESIST	1.330 0.533	0.093 0.298

Table 7: Regression results for H2

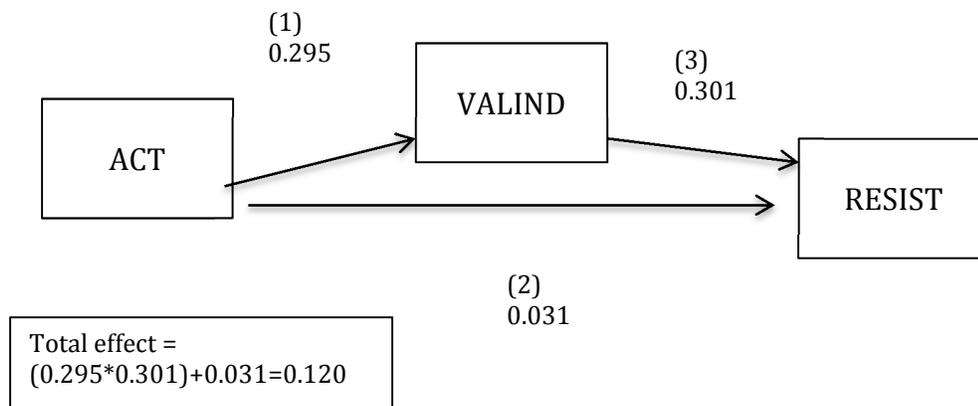


Figure 3 : Path analysis for H2

The last two hypotheses concern the relationship between self-actualization, client power and resistance to client pressure. The results are presented in Table 8. To test H3, the data was filtrated once again, to keep only participants with a high attachment to independence, and with a high level of self-actualization (H3), as the hypothesis states that those auditors will not be influenced by client power. A regression was run with RESIST as a dependent variable and POWER and EXPART as independent variables. POWER was not a significant variable in the regression (Table 8), with VALIND and VALRUL, and only marginally significant with VALUES, supporting the hypothesis.

Finally, the last hypothesis H4 states that when attachment to independence is high and self-actualization is low, power balance will influence the auditor. To test this hypothesis, only auditors with a high attachment to independence and a low level of self-actualization were included in the regression. As we can see in Table 8, POWER was significant in the regression with VALUES only, meaning that when auditor's attachment to independence is high and his self-actualization is low, auditors are influenced by client power. The hypothesis is therefore partially supported. Table 9 shows the summary of results for all the hypotheses of this study, with each of the three independence constructs.

Hypothesis	Independence measurement	N	Independent variables	Beta	Dependent variable	T	p-value
H3	VALUES	21	POWER EXPART	-0.361 -0.034	RESIST	-1.642 -0.155	0.059* 0.439
H3	VALIND	32	POWER EXPART	-0.241 -0.260	RESIST	-1.224 -1.492	0.116 0.073*
H3	VALRUL	21	POWER EXPART	-0.288 -0.087	RESIST	-1.281 -0.389	0.108 0.351
H4	VALUES	17	POWER EXPART	-0.414 0.292	RESIST	-1.802 1.268	0.047** 0.113
H4	VALIND	14	POWER EXPART	-0.106 0.238	RESIST	-0.353 0.795	0.366 0.222
H4	VALRUL	23	POWER EXPART	-0.038 0.146	RESIST	-0.170 0.649	0.433 0.262

Table 8: Regression coefficients for H3 and H4

Hypotheses	VALUES	VALIND	VALRUL
H1a: When the auditor has a higher level of attachment to independence, his level of self-actualization will have a positive influence on his level of resistance to client pressure.	Not supported	Not supported	Not supported
H1b: When the auditor has a lower level of attachment to independence, his level of self-actualization will not have an influence on his level of resistance to client pressure.	Supported	Supported	Not supported
H2: Auditors with a higher level of self-actualization will have a higher attachment to independence, leading to a higher resistance to client pressure.	Not supported	Supported	Not supported
H3: When auditor attachment to independence and self-actualization levels are high, power balance will have no influence on his resistance to client pressure.	Marginally supported	Supported	Supported
H4: When the auditor has a high level of attachment to independence and his level of self-actualization is low, power balance will influence negatively his level of resistance to client pressure.	Supported	Not supported	Not supported

Table 11: Summary of results

Discussion and conclusions

The objective of this research was to evaluate the existence of a relationship between auditor self-actualization and his level of resistance to client pressure. Auditors frequently feel pressure coming from their clients in negotiation situations, and research to understand why certain auditors cope better than others with this pressure is essential. Furthermore, self-actualization has never been studied in the auditing context, despite its obvious implications for the auditor-client relationship and for auditor independence,

considering that self-actualizing individuals are independent towards their environment and better able to resist external pressures (Maslow, 1973; Leclerc et al., 2002). The findings show that auditors with higher levels of self-actualization have a higher resistance to client pressure. Contrary to the hypothesis (H1a and H1b), this relationship is not conditional to a high level of attachment to independence. A possible explanation is that all the participants to this study showed a high attachment to independence, so dividing the groups into high and low attachment was not differentiating enough. Furthermore, attachment to independence is a mediating variable on the relationship between self-actualization and resistance to client pressure (H2). When the auditor exhibits a high level of self-actualization, he also exhibits a greater attachment to independence, and therefore a higher level of resistance to client pressure. The results also show that when auditors prioritize independence, power balance has a greater influence when self-actualization is low (H3 and H4). Correlations between the main variables were also analysed, and the relationships support the model; auditor resistance is positively correlated with self-actualization and attachment to independence, and negatively correlated with client power.

The main contribution of this paper is introducing self-actualization as an explanatory variable for auditor independence. The results of this research have practical implications for the audit profession, with potential ways of increasing auditor self-actualization through selection, training and environmental changes. Furthermore, previous studies have shown that self-actualization is beneficial not only to the individual, but also to the organization (Dorer & Mahoney, 2006), making this study's results all the more relevant to the audit profession, and particularly audit firms. Some additional results also show that younger

auditors have a lower attachment to independence, bringing out questions about current education and culture in the profession. Another unexpected result is that auditors showed a higher agreement to the importance of independence in the audit profession (item Q1 in the VALUES construct) than how they prioritize independence in their relationships with their clients (item Q5 in the VALUES constructs), indicating that independence is more important in theory than in practice. This research is also the first to provide empirical results on the power-balance in the auditor client-relationship; the findings show that while auditors see the power as balanced, they are influenced by client power in their level of resistance to client pressure. Finally, the important number of participants and response rate and their key role in auditor-client negotiation as Big 4 audit partners is a strength of this study.

A limitation to this study is its correlational structure, as I was not able to manipulate levels of client power and client pressure. Those variables were controlled, but the lack of manipulation prevents from drawing conclusions regarding causal relationships. There are a number of promising avenues for future research. This study's model was an exploratory model regarding self-actualization and power and their role in auditor resistance to client pressure. Future research should focus on developing an experimental model to confirm the nature of those relationships. Research on auditor self-actualization and peer pressure would also be important, given how auditor-client negotiations often involve multiple audit partners. Finally, further research on client power involving the second and third dimensions of power according to Lukes would allow for a better understanding of how power influences auditor resistance to client pressure in different contexts.

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