

PERSUASION IN ACCOUNTING

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ABSTRACT

The accounting profession typically focuses on technical competency and concerns in order to produce sufficient, efficient, and accurate results. While this is an effective means of carrying out an audit or forensic engagement, research supports a persuasive focus. According to research, a persuasive approach to audit and forensic engagements allows for higher concessions from the client which improves information accuracy and creates a better affective environment resulting in happier clients more likely to retain and recommend the auditor. Simply by giving attention to persuasive tactics, the results are improved compared to without use of persuasive tactics, but there are a number of tactics and tactical categories that are more effective than others. Some discussed tactics include: threatening a qualified audit opinion, reciprocity method, and social validation theory. Ultimately, research shows that reciprocity can be used alongside any other tactics and that social validation theory produces the best combined client concession and affective result.

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INTRODUCTION

The accounting profession is understood by the some in the public as a group of socially inept professionals who have a deep-seeded love of calculators and cubicles. However, those on the inside know it is, in many ways, an occupation dependent upon skillful management of relationships and communication. An example is the frequency with which accountants find themselves engaged in informal negotiations with their clients over matters of accounting judgment. While many scholarly articles argue the positive effect of audit negotiation on the resulting financial statements, “little subsequent research discusses the potential strategies that auditors may employ during the negotiation process” (Hatfield et al., 2008, p. 1187). In fact, “the need for effective negotiations regarding additional disclosures or potential misstatements has received limited attention even though the issue at hand often entails subjective matters” (Trotman et al., 2005, p. 350). If so much of accounting relies heavily on building and maintaining relationships, why does typical accounting training not cover the basics of best practice in working with clients to get the best result?

“All of the technical aspects [of auditing] are important but they can’t substitute for the primary skill, which is the art of negotiation” (Buxbaum, 2002, p. 80). In many cases, persuasion is unknowingly used in accounting and thus never given name. In an audit negotiation or an accounting forensic investigation, the accountant must obtain and understand information from the client. While accountants with little to no knowledge about persuasion have been capable of getting this information for years, research has shown that knowledge of persuasion allows the accountant to be more effective at gaining information while maintaining a more cooperative relationship with the client.

This suggests a need in the accounting world to shift from a purely technical focus to a personal, and persuasive, focus.

There has been some, but not extensive, research done in the area of persuasion in accounting. Principally, Perreault and Kida (2011) researched and analyzed the impact that the persuasion and communication style of an auditor can have on the concessions and efficacy in the auditor-client negotiation. Their research encompasses four persuasive tactics each featuring two communication styles. As far as research integrating knowledge of persuasion and accounting, Perreault and Kida (2011) are the furthest along in terms of understanding and providing evidence in support of preparing auditors with persuasion in mind; however, due to the nature of the article and research, they do not explore the effect and impact of combining multiple tactics or communication styles at various stages of a negotiation. Other sources discuss the nature of negotiations or relationships between the auditor or the forensic specialist and the client, but do not have a strong focus on standard persuasive material. Therefore, in this thesis, I synthesize these articles for the purpose of demonstrating how they apply in audit and forensic settings.

While there are not copious amounts of research integrating persuasion into accounting scenarios, persuasion is a powerful and valuable tool that should not be ignored even in the world of accounting. One of the major pushes against the use of persuasion is concerns about efficiency. Managers and partners worry that persuasion means wasting time, and thus money, with pleasantries when the job could be done quicker and with less effort or research on the auditor's part. The question is whether persuasion is a waste of time and resources or if it: (1) enhances the audit quality; (2) enhances profitability of the accounting firm; and (3) enhances the working relationship

with the client to the point of retention in future years. If persuasion is potent in the accounting community, what tactics are most efficient and effective and how should accountants approach understanding and using it?

In this thesis, I focus on the themes and techniques learned in articles about persuasion to frame auditor-client relationships and skills necessary in accounting forensics. In order to answer the questions posed above, I begin by exploring best practices in persuasion and the effects of timing and personality; I next focus on the integration of persuasion into an audit context and its results; I then explore the integration of persuasion into a forensic context; and finally I evaluate the need for the integration of persuasion into accounting and how it can be achieved.

RESEARCH METHOD

In order to study the usage and effects of persuasion in accounting, this thesis takes a conceptual look at research previously performed and attempts to apply and compare the different tactics to current accounting practice.

LITERATURE REVIEW

Background on Accounting

In this section, I provide a basic description of auditing, forensic accounting, and the reasons an auditor or a forensic accountant may be called on to negotiate.

What is an Audit?

An external audit of a company is performed by independent accountants that are hired by the organization to provide reasonable assurance to investors, owners, and the public that the financial statements of the organization are presented in proper form and free from material misstatement. Publicly traded organizations are required by the

Securities and Exchange Commission (SEC) to undergo an audit by an independent accounting firm, and non-public entities may choose to undergo an audit due to requirements of their lenders, owners, employees, or sometimes by statute.

At all times during the audit, the accountants must be independent in appearance and in fact. During the audit, the chief job of the accountants is to verify all information shown by the company. Examples of this include checking all cash amounts from voucher packages, following an audit paper trail to confirm accuracy, recalculating estimates, and interviewing employees of the organization. All of this is done to verify the financial statements released by the company in an effort to give investors reliable information about companies across the board. It is impossible and inefficient for auditors to inspect every aspect of a business, so they plan strategically what needs attention at the beginning of an audit during a planning stage. While creating an audit plan, auditors make assumptions and conclusions about the different risks present in the business which they plug into the audit risk formula:

$$\text{Audit Risk} = \text{Inherent Risk} \times \text{Control Risk} \times \text{Detection Risk}$$

After evaluating the above formula, teams perform audits of the business. During an audit, auditors focus on five assertions: presentation and disclosure, existence and occurrence, rights and obligations, completeness, and accuracy and valuation.

At the end of this process, the auditors write a letter which is placed at the beginning of the company's financial statements and contains an opinion of the quality of their financial statements. There are four opinions that the audit team can give: unqualified, qualified, adverse, or disclaimer of opinion. An unqualified opinion is a clean bill of health for a company's financial statements and is the best opinion to

receive. This does not mean the financial statements were without error when the auditors started this job, but it does mean all material errors were resolved through audit negotiation and communication. A qualified opinion means that most aspects of the company's financial statements were verified, but there may be one or two errors or minor scope limitations. An adverse opinion means that more than a few things are incorrect, that there were more considerable scope limitations, and most likely that management was not as agreeable to correcting errors. A disclaimer of opinion means that the auditors were unable to complete an audit of the company either due to some compromise of their independence or because of severe scope limitations imposed by the company or nature (such as hurricane damage).

What is Accounting Forensics?

A close relative but a step further than audit, forensic accounting focuses on the discovery and examination of fraud in organizations. "Forensic accounting, sometimes called investigative accounting, involves the application of accounting concepts and techniques to legal problems. Forensic accountants investigate and document financial fraud and white-collar crimes such as embezzlement. They also provide litigation support to attorneys and law enforcement agencies investigating financial wrongdoing" (Forensic, 2014). Because they are often brought in during the fraud case's litigation, forensic accountants have the added burden of not just investigating the fraud and interviewing employees to ascertain the nature of the fraud, but they also must investigate every way the opposition could prove otherwise in order to provide a full-service to attorneys. The forensic accountant is therefore responsible – regardless of by whom they are hired– for

acting as both the plaintiff and defendant. Due to this, knowledge of persuasion is even more necessary and valuable to the forensic specialist.

Forensic specialists are hired for many different reasons and by many different organizations. Sometimes fraud examiners are engaged after an external audit has found fraud, but according to the Fraud Study performed by the Association of Certified Fraud Examiners only 3% of detected fraud in 2014 was found through an external audit (Report, 2015). In addition to when a fraud is discovered in a business, some other instances when a forensic accountant will be hired are during matrimonial disputes to investigate and value assets, to attest to insurance or injury claims, or to perform a valuation before the sale or purchase of a company. Some parties that hire forensic specialists are corporations, attorneys, and the government.

While accounting forensics does involve a considerable amount of digging through mounds of paperwork and accounts, it also leans heavily on working with team members, asking questions of those involved with the case, and presenting the conclusions of their investigations. When asking difficult questions in a fraud case, those being questioned are more on their guard than in a typical audit scenario. Therefore, these situations require additional scrutiny and care.

Reasons to Negotiate

Negotiation between auditors and clients play a large role in the presentation of an organization's financial statements. "Negotiation applies to auditing because for many financial statement accounts (1) uncertainty exists about the true value to report, and (2) different incentives exist for managers and auditors" (Wang et al., 2009, p. 579). These uncertainties can arise from dispute over the calculation of an accounting estimate or due

to imprecise accounting standards that are interpreted subjectively (Trotman et al., 2005). The difference in incentives for auditors and clients lies in their different professional responsibilities: maintaining independence and maximizing shareholder value (Bame-Aldred et al., 2007).

While the auditors have the upper hand because they provide the public opinion of the company's financial statements, the audited companies also hire the auditors to perform the external audit. "The process of resolving audit differences could affect client retention and satisfaction, as well as the resulting financial statements" (Hatfield et al., 2008, p. 1184). Therefore, if the result of a negotiation is an auditor win and a client loss, it can also result in a loss of a client for the auditor. While independence is non-negotiable, negotiation strategy is.

In many ways a forensic accountant will have similar reasons to an auditor of why they need to use persuasion. Forensic accountants many times work with people or companies who do not want to share information or intentionally try to spin information for their benefit. Forensic accountants require the persuasive skills necessary to recognize these behaviors and to counteract them in order to achieve a more reliable result.

Introduction to Scenarios

Before this thesis addresses general persuasive matters, I want to pause and begin an illustration that will continue and build throughout this thesis. Through this illustration, persuasion can be understood in a real world accounting application.

Client ABC hired auditor Owen, Dwight, Ike, & Turner (ODIT) to perform the external audit of ABC's financial statements required by the SEC for public companies like ABC. For the past month, ODIT has been at ABC's headquarters performing the

field work for the audit engagement. ODIT team members have vouched and tied third party information to ABC's corporate information for each section and category of the financial statements (Cash, Accounts Receivable, Fixed Assets, etc.).

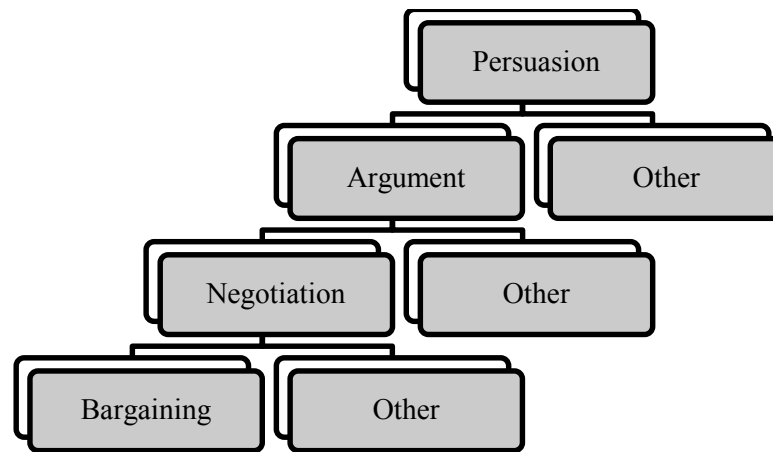
In this fieldwork, ODIT has found a large portion of currently recognized revenue is misclassified. ODIT also found that the expenses are slightly understated due to assets capitalized in error. Due to the material misstatement and inflation of revenue recognized by ABC, ODIT will prepare for a discussion and negotiation of the revenue recognition.

Persuasion

To understand what role persuasion can play in accounting, there first must be an understanding of what persuasion is and what it is not. In the following section, I discuss the definition of persuasion, rhetorical elements, possible responses to persuasion, solution sets of negotiators, and the basics of the art of persuasion.

Persuasion as defined by Jowett and O'Donnell (2012) is "a communicative process to influence others" (p. 32). A persuasive situation exists when "an audience can be changed in belief or action by means of speech" (Bitzer, 1968, p. 3). Understanding this through an accounting lens means that persuasion can be used by accountants to influence a company to fix financial statement errors. One example of this is the auditor could show proof of the error on the statements, explain why it is not according to GAAP, and influence the client to make the change through a persuasive tactic. When put so simplistically failure seems impossible, but studies have proven there is more to this hypothesis than there may at first seem. In the area of opposing views and differing desires, there are four terms used and examined as verbal companions and, in some cases, near synonyms: persuasion, argument, negotiation, and bargaining (Provis, 2004). While

related and used in combination to achieve a greater effect, these terms are not synonyms and can be understood through a definition hierarchy:



While interlinked through this hierarchy, each term does require different conditions to exist and has different goals within those conditions. For instance, negotiation and bargaining require some sort of conflict to be present between the two parties, but persuasion and argument are not bound by this need (Provis, 2004). The goal of bargaining and negotiation is most often convincing the other party to *do*, or not do, something, but the goal of persuasion and argument is usually convincing the other party to *believe* something in particular (Provis, 2004). Furthermore, bargaining concerns pleasing each party's preferences, but persuasion, argument, and negotiation are usually concerned with changing preferences or how the other party views those preferences (Provis, 2004).

Bitzer discusses persuasive situations compared to rhetorical situations. He says a persuasive situation requires no inciting incident or condition (exigence) and therefore exists wherever audiences exist as it is always possible to persuade towards changing their views. A rhetorical situation is a sort of subset of a persuasive situation that requires three elements.

First, a rhetorical situation requires an actual or potential exigence – “an imperfection marked by urgency” – in order to exist (Bitzer, 1968, p. 6). For the situation to be truly rhetorical the exigence has to have the ability to be modified or “solved.” In this case, an error found through an audit is an exigence that requires the auditor to use rhetoric to the effect of modifying the exigence – the error.

Second, in a rhetorical situation, the audience “consists only of those persons who are capable of being influenced by discourse and of being mediators of change” (Bitzer, 1968, p. 8). So while a persuasive audience is anyone regardless of their ability to influence change, a rhetorical audience has to be able to modify the exigence. In an audit scenario, employees of the client can be persuaded that something should be changed, but may not have the power to change an error. In an audit scenario the rhetorical audience is most likely the Chief Financial Officer (CFO) or the company Controller.

Lastly, a rhetorical situation contains a set of constraints “which are parts of the situation because they have the power to constrain decision and action needed to modify the exigence” (Bitzer, 1968, p. 8). Constraints can be found in attitudes, documents, facts, tradition, etc. In an audit situation this could include the auditor’s independence, paper work information, or GAAP and SEC requirements.

Therefore, while meeting new clients is most likely a persuasive situation, discussion regarding errors or audit fees during the engagement can be classified as rhetorical situations which have the ability to modify the exigence, within the constraints, through rhetorical discourse.

Possible Responses to Persuasion

The tactics and responses to persuasion are all focused on three types of audiences that require three different persuasive goals. By understanding these three audience responses better, persuaders can better focus and present their message. The first is called response shaping. This is when the audience is a relatively blank slate and the persuader can take on more of the role of teacher. In an audit context, some new companies or mom-and-pop establishments will respond in this sort of way. In this context the persuader needs to be able to explain circumstances and purpose, but winning over the persuadee is moderately commonplace (Jowett et al., 2012).

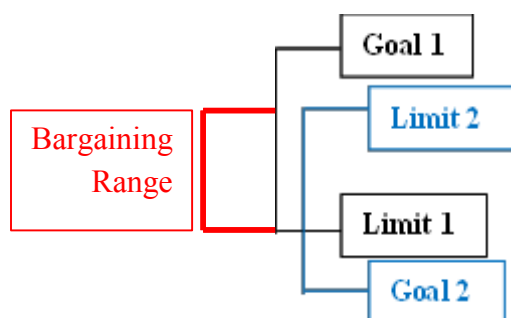
The second is response reinforcing. In this case, the persuader is expecting a positive response from the persuadee and because of that the persuader can focus on reminding the persuadee of the positive aspects. This is the easiest response for a persuader to present to because the audience has previously been won over and all the persuader needs to do is to keep them that way (Jowett et al., 2012). This is the case of an auditor finding an error that the client legitimately missed and is happy to correct; or the accounting forensic specialist asking questions of the client that hired them – the client is happy to comply as they want the best result from the expense of paying the specialist.

The most challenging persuasive response to achieve is response changing. Response changing occurs when the audience believes or thinks one way and the persuader is asking them to change that behavior, belief, or attitude (Jowett et al., 2012). Generally speaking, people are reluctant to change. Accordingly, it is important for a persuader to arm themselves with knowledge of persuasion as discussed later. In an audit context, this presents when there is an error in a financial statement and the client does

not feel they should have to change it based on their years of experience or their level in the hierarchy of the company. Sometimes that person is motivated by personal concern for corporate repercussions towards the individual. In an accounting forensics situation, this is most present when questioning the opposing client who does not want to give their opposition information that could hurt them in trial later. It is because of response changing that knowledge of persuasion is necessary in the accounting profession. In these types of scenarios, all factors in the environment play in to how the audit or forensic situation could end and accountants need to arm themselves with knowledge of human behavior to better handle the engagement.

Solution Sets and Flexibility

While some of negotiation preparation depends on what tactic the negotiator chooses to employ, other preparation is universally necessary. Before even considering the tactics that a negotiator can use, it is important to prepare for the negotiation with some basic information about each party's goals. Among the general preparation for a negotiation is establishing, but not sharing, the solution sets of both parties. "The solution set [for a particular negotiator] lies between a negotiator's goal and limit (i.e., what they want to report and what the minimum acceptable amount would be). Any overlap in solution sets indicates the existence of a bargaining range" (Bame-Aldred et al., 2007, p. 500). This is illustrated in the chart below:



Clients usually have a wider solution set than auditors, which allows for more flexibility. This is most likely due “to a better grasp of GAAP, a reluctance to negotiate critical revenue recognition issues,” or they “may consider their accounting decisions to be less open for negotiation as compared to clients” (Bame-Aldred et al., 2007, p. 498). In solution set studies involving auditors and clients, the client was generally flexible to the point of “[recognizing] a revenue amount that was less than the auditors’ goal” (Bame-Aldred et al., 2007, p. 504). The auditor solution set is typically smaller and more rigid. “The auditors’ smaller solution set leaves less room for maneuvering, and may create rigidity in the negotiation tactics used by auditors. However, problems arising from this potential rigidity may be lessened if auditors’ solution sets are contained within the initial bargaining range” (Bame-Aldred et al., 2007, p. 504). This means that while the auditor may have a more rigid, smaller solution set, if it fits within the client solution set – that is, if the auditor’s goal and limit fit with the range of the client’s goal and limit – then there is less concern for ensuing conflict. However, if the auditor’s smaller solution set does not intersect the client solution set and allow for the creation of a bargaining range, then the concern for conflict is high as there is no possibility for successful negotiation as the situation stands.

Knowing the counter-party very well is important to persuasive success (Manallack, 2002). “The negotiator that better understands the other party’s goals, limits and other interests has a lower likelihood of being manipulated by the other party’s negotiation tactics” (Bame-Aldred et al., 2007, p. 500). In the study by Bame-Aldred and Kida, they asked auditors and clients to not only write down their own solution set, but their estimate of the solution set of the other party. Interestingly, the clients were more

accurate at estimating the auditor solution set than vice versa by a large margin. The auditors' perceptions of the clients' solution sets were 30-40% more inaccurate than the clients' perception of the auditors' solution sets (Bame-Aldred et al., 2007).

This difference in ability to estimate the counter-party's solution set could be due to many clients having an average of seven years of experience as an auditor before turning to industry (Bame-Aldred et al., 2007). This amount of experience indicates many clients were at the manager-level in a public accounting firm before entering industry. This level of experience implies that the accountant most likely had experience negotiating with the client and establishing audit materiality. The difference in ability to estimate the other party's solution set could also be due to the auditor's misinterpretation of the client's opening position in the negotiation. "Auditors may interpret a client's opening position and reporting goal to be the same when, in fact, they are not [perhaps due to client strategy], resulting in considerable errors in auditor perceptions" (Bame-Aldred et al., 2007, p. 505). Many clients will have an opening position that is higher than even their goal amount because they know the auditor will negotiate the amount lower.

The Basics

Based on my research, some of the most important basic elements to success in persuasion are connecting interpersonally and inspiring confidence.

Connect

Stephen Manallack (2002) places special importance on comity, empathy, and sincerity. He contends that it is not the strength of the reasoning or argument that wins the day; it is the interpersonal relationship and behavior. Manallack (2002) emphasizes

five elements important to persuasion, three of which pertain to the need for the persuader to connect to the persuadee: connecting emotionally, establishing common ground, and being dramatic (using anecdotes).

Connecting Emotionally

Connecting emotionally does not mean sharing stories about a family camping trip at age seven. It means allowing others to see enthusiasm and connection to the project, whatever the project may be. Genuine interest and concern for the project signals a level of effort and trust that can be counted on. Enthusiasm and interest signal to a client that the project is more than an obligation or something to check the boxes on; it means that the project matters and that the accountant is on the client's side in terms of putting forward the best effort the project. All of these things add up to the client having a greater liking for the accountant in the scenario, and people typically do more for people they like (Cialdini, 2007).

Connecting emotionally is also about knowing the client. The persuader should be aware of the connection the persuadee has for the project and to what lengths they are willing to go. This is more than the basic understanding of the persuadee's position in the company – like Chief Executive Officer (CEO) – and is more about gauging their personal commitment and ties. So, “similar to corporate communication, persuasion becomes a matter of knowing yourself and knowing your target” (Manallack, 2002, p. 21).

Establishing Common Ground

When thinking about persuading another, many people focus only on their side of the argument and on how they will present the information. This misses the bigger

picture. An important part of persuasion is listening to the other person and truly understanding their point of view and thought process. For persuasive messages to hit the mark and be most effective, “your messages need to be framed so they appeal strongly to the people you want to persuade” (Manallack, 2002, p. 21). This is why preparing the argument relies more on understanding the target, their view of the situation, and any concerns that could arise and provide conflict than it does on the actual research and presentation. Without understanding the full situation through the target’s eyes and being aware of the concerns needing to be mitigated, the persuasive attempt will likely fall flat due to addressing the wrong sides of the issue.

The most salient lesson from this section is the importance of listening skills. Instead of titling this section “Be a Good Listener”, Manallack (2002) focuses on the reason to sharpen persuasive skills – it is the way to create common ground and “without common ground, you will not persuade” (p. 21).

Manallack (2002) goes on to highlight the role an emotional connection has within establishing common ground: “The best corporate persuaders have all had a keen interest in others and the ability to listen, and this will work for you in accountancy, too” (p. 21). At the end of the day, the most business savvy person may not have the required charisma and caring attitude to endear the persuadee or endorse the idea. Those who are cold or intimidate others will be isolated from the persuadee and therefore find it difficult to promote their message. The second aspect found in this quote is the idea that even in accountancy, where most any auditor should give similar recommendations and advice, there still needs to be an emotional connection to establish common ground and raise the effectiveness of the project.

Being Dramatic

This is the most misleading of any of Manallack's (2002) subtitles. It calls to mind theatrical plays, raised voices, and hyperbole. But for Manallack (2002), "be dramatic" means using anecdotes, personal stories, and authorities on a topic for support. A good example of this persuasive tactic is Jesus in the Bible. The Bible says Jesus taught His message through telling parables, or stories, to all that came to hear Him. Instead of simply saying "love your neighbor as yourself," the Bible says Jesus told the story of the man from Samaria who helped a wounded, recently-robbed stranger (Luke 10:25-37). Because the story sticks in one's mind more than individual commands, the listener can grasp the information more clearly and understand through relatable application.

Especially in the case of response changing, connecting to the audience through emotions, common ground, and anecdotes can be a crucial to success in persuasion. "People are reluctant to change; thus, to convince them to do so, the persuader has to relate the change to something in which the persuadee already believes...An anchor is a starting point for change because it represents something already widely accepted by potential persuades" (Jowett et al., 2012, p. 34). An anchor can be anything that unites a group like beliefs, values, or attitudes. If accountants can learn to anchor their argument in more than GAAP, International Financial Reporting Standards (IFRS), United States Law, or any other formal, widely used guidelines, then they have a better chance of persuading the audience as will be discussed later.

Inspire Confidence

While many forms of persuasive appeal are not taught by business schools or considered by business professionals, inspiring confidence is something often promoted as an important focus. At the basic level, inspiring confidence means establishing a sense of ethos. In Greek, “ethos” literally translates to character. So when it comes to building ethos among colleagues and clients, the persuader should focus on accentuating the good parts of their character. To accentuate one’s character and thus inspire confidence from those surrounding them, the persuader should focus on creating and maintaining credibility and building teams.

Creating Credibility

The foundation of a well-formed persuasive argument is credibility. According to Manallack (2002), “credibility comes from being good at what you do, being reliable and trustworthy, and building good relationships” (p. 21). In his understanding of credibility, the first two parts deal with the work ethic and product of the persuader which shapes the perception of the audience to inspire confidence in the work they do. The most important considerations of a persuasive party trying to create credibility are focuses of accuracy, efficiency, and sound professional judgment.

The final part of Manallack’s definition of credibility is “building good relationships.” While creating credibility is a part of inspiring confidence, connecting emotionally discussed in the previous section is also part of creating credibility. It is no shock that “people are more willing to do a favor for someone they like” (Cialdini, 2007, p. 21). But more than that, people have heightened senses of someone’s credibility the more they know them. Experiences with people add to our perceptions of them and add to

their credibility. A prime example of this is the political election of Ronald Reagan to the presidency. He was a man of the people who spoke in normal diction with a good sense of humor. The general public viewed him as relatable and felt they knew him personally. This heightened his likability and thus credibility in the eyes of the public and resulted in his election.

Building Teams

Another form of creating credibility is creating good relationships within the team to establish co-workers who will support and aid in persuading the client. “Teaming with your colleagues or clients is an asset; we like team players, and we listen to them” (Manallack, 2002, p. 21). An additional benefit is even when not speaking directly to the client, the client notices how the audit team interacts with one another. To ensure the clients get the right impression, the audit team needs to maintain professionalism and group cohesion. Furthermore, allowing the client, or persuadee, to feel a part of the team produces additional benefits and openness between persuader and persuadee. This can be achieved by remembering the role the persuadee plays in the final product. In a forensic accounting scenario this translates to creating an environment where the clients on either side of the argument feel they are adding to the goal of establishing a more holistic view of the situation.

Factors

Some independent variables in every persuasion attempt are the personalities, egos, and gender roles of the persuadee.

One of the factors that plays into using persuasive tactics is the personalities of the involved parties. For example, one particular point of contention in personality is the

use of humor. Tastes in humor usage vary drastically, but – when used correctly – humor can be a very effective means of commending one person to another. If intending to use humor, it must be appropriate for the situation. Another personality trait consideration is the style of communication people prefer. Some – regardless of gender – prefer a more direct means of communication. They are efficient in speech while not intending to be curt or rude. Others will prefer a longer more conversant style of communication. This could include pleasantries about personal lives precluding any business communication.

A second factor is the egos of the involved parties. Ego here is not used with the negative connotation given it in colloquial usage, but the denotation meaning “a person's sense of self-esteem or self-importance.” With different levels of professionals one will encounter while working in audit or forensic accounting, there will also be different ego considerations. A professional with expansive experience from both time and elevated position in his or her field will most likely be the person more difficult to convince of something that is contrary to his or her knowledge. Typically with increased job responsibility due to elevated position or a considerable amount of time spent doing a certain job, there is an elevated sense of personal ability. In order to be persuasive in a rhetorical situation involving this personality, an appeal to his or her years of knowledge or level of expertise can be effective when appropriate. A healthy amount of respect while quietly maintaining professional skepticism and practice is important in this case.

A third possible factor that could affect a persuasive situation is the genders of the parties involved. While personality conclusions may appear stereotypical rather than factual, there are certain behaviors that are typical for each gender that have been researched and tested. For example, because of the male-dominated social structure in

America and Europe, males in these cultures typically communicate more directly because of their assumed role of dominance (Babcock et al., 2007; Dolinska et al., 2006). When a male enters a situation, especially in contrast to a female, there is an involuntary social perception that regardless of what he says, that he is the dominant participant in the situation. Due to this historical social norm, women have learned subordination and through this – when opposite a man – will choose an indirect form of communication in order to achieve her goals. Put simply, when it comes to leadership: men tend to command and women tend to ask (Babcock et al., 2007; Dolinska et al., 2006). In negotiation, again to put it simply: men are willing to ask for more and women perform in a certain way intending for something to be offered to them. While these are oversimplifications and will not always be true, it is something to keep in mind. When dealing in scenarios with mixed genders – which will most likely be the case in the world today – it is important to be aware of the social bias towards male-dominated leadership. While keeping this in mind, it is also vital to not over-correct by siding with the female simply due to historical social subordination.

Keeping in mind peripheral factors such as these that could affect the result of a persuasive situation will allow the persuasive tactics and strategies discussed in this thesis to be catered to specific situations for better results.

Conclusion

Using these principles of persuasion, researchers have developed a number of methods of persuasion, negotiation, and communication that maximizes the utilization of the knowledge in these areas. The methods are usually simple enough for the user to adjust the procedure to accommodate both their personality and the personality of the persuadee. Allowing these factors to play into the method of persuasion improves the

methods. Aside from the variation in the methods due to employing an understanding of how the personalities of both parties effect the persuasive situation, the types of persuasive methods themselves also vary widely. Some of these methods have been mentioned previously in this section on persuasion and more will be discussed in the section on the implementation of persuasive tactics.

Scenario Participant Analysis

Now that I have presented some basic persuasive tactics and explanations of solutions sets, I want to return to the misstated revenue recognition illustration to analyze the parties involved. Recall from above that ODIT has found that the recognized revenue by ABC is materially misstated due to misclassification. Before ODIT and ABC enter into negotiation, it is important to assess the solution sets of both parties in order to prepare a negotiation game plan.

ODIT's goal in the negotiation is for the client to concede and reclassify the materially misstated revenue item. This act will ultimately result in the ABC's revenue decreasing, which affects their bottom line. ABC, of course, does not like the idea of anything decreasing their bottom line because of the effect on investors and loan availability. The lower limit for ODIT "can be looked on as the point where the auditor considers qualifying the opinion" (Bame-Aldred et al., 2007, p. 498). ODIT could choose to qualify the opinion if ABC refuses to correct the material misstatement of revenue. Because the amount is material that means the misstatement is large enough to effect the numbers and sway investors' decisions. Therefore, as an independent auditor, it is ODIT's duty to give a qualified opinion if there is (1) a large misstatement that goes unadjusted or (2) a scope limitation.

The client's goal in the negotiation is ultimately to keep their revenue high and their expenses low. Since the client is typically more flexible and understands that they must concede some to the auditor, ABC is willing to reclassify the majority – but not all – of the revenue misstatement and some of the expense misstatement. This is ABC's lower limit.

Implementation in Accounting

After creating general persuasive knowledge, I focus in this next section on the implementation and application of different researched tactics in accounting scenarios.

Independence and professional skepticism are cornerstones of the accounting profession. Auditors and forensic accountants place businesses under a microscope and examine them for integrity and compliance to provide reasonable assurance against fraud or financial error. This service provides the public, investors, financial institutions, etc. with more trustworthy financial statements and a reasonable amount of corporate transparency. Accountants are charged with performing an unbiased examination, but objectivity does not exclude the use of persuasion and rhetoric in order to improve their process and results.

While all persuasive tactics should be tailored for each situation, researchers have studied the relationship between an accountant and a third party which has yielded information particular to the communication style and persuasive approach that is more effective in an accounting environment. While most research focuses on the auditor-client relationship, much of the researched tactics and results could also apply to the forensic accounting field. According to the research, forensic accountants will experience similar, but more intense needs for persuasion and rhetoric. While an auditor may note client

behavior at a basic level to analyze and understand the client, the forensic accountant may study client behavior to judge the validity of the information being given.

Due to the similarity of the usages for persuasion between auditing and forensic accounting, the terminology used will stem from the audit profession. For simplicity, this thesis allows that forensic accounting is a more focused discipline of an audit. Therefore, when terms like “auditor,” “client,” “audit negotiation,” or “auditor-client relationship” appear, they are applicable to either discipline (in different ways) unless otherwise stated.

In this section, I discuss communication styles, distributive and integrative tactics, as well as how to prepare for a negotiation.

Tactics

Recall that the difficulty inherent to the audit profession is the “unique environment in which they have a duty to users of the financial statements to provide independent assurance regarding the financial statements while maintaining an amicable relationship with the management of the corporation, who are responsible for preparing the financial statements” (Sanchez, 2007, p. 242). Satisfying the demands of this unique environment is not just about job security or satisfaction, “the process of resolving audit differences could affect client retention and satisfaction, as well as the resulting financial statements” (Sanchez, 2007, p. 242). According to research, there are many different tactics that can be employed during a negotiation to produce the best results for the auditor. While these tactics are greatly varied and almost all have some level of measurable success, I focus on the best and the worst of persuasive audit maneuvers. In this section, I discuss some basic, researched, and tested techniques as well as their uses.

It is important for auditors to understand the different tactics and their purposes, because “the auditor is more likely than the client to trigger the negotiation” (Gibbins et al., 2010, pg. 579). This could be due to a number of reasons. Among these reasons one is that the auditors are running a business and the burden of customer service lies with them. When an auditor approaches an issue, it must be with a mind to the business of the auditing firm. “The initial strategy choice can affect the length of the negotiation, the likelihood of an agreement, the parties’ relationship, and the context of future negotiations” (Trotman et al., 2009; via Gibbins et al., 2010, p. 579). Importantly, “the strategy initially chosen can affect resulting gains or losses that occur several rounds later, even after subsequent changes in strategies and tactics” (Gibbins et al., 2010, p. 579).

Tactics can be split into two main categories: distributive (win-lose) and integrative (win-win). “The distributive strategies’ tactics include those within the “contending” strategy (directly and forcefully challenging management’s position), the “conceding” strategy (giving in partially to induce concessions) and the “compromising” strategy (offering to split the difference), whereas the integrative strategies’ tactics include those within the “problem solving” strategy (searching for a new solution that meets the needs of both sides) and the “expanding the agenda” strategy (adding new issues to the negotiation to allow for gains for both sides)” (Gibbins et al., 2010, p. 580). Simply put distributive comes to a competitive solution and integrative comes to a creative solution.

Communication Style

Communication style has a lot to do with setting up which category of negotiation takes place between the auditor and the client. As the person most likely to initiate a

negotiation, auditors should be mindful of the communication style they establish. Similar to the categories of negotiation strategies, the two styles of communication most common in a negotiation are contentious and cooperative. “Manipulating one’s communication style often involves the display of emotion through the use of affective statements” (Perreault et al., 2011, p. 538). The study of the power of affect in a negotiation has focused on the role of intrapersonal affect and shows that positive affect leads to increased concessions and cooperative strategies for the one using it (Perreault et al., 2011). However, the benefits of a positive affect do not only apply to the user. According to social contagion theory, “affect can spread from one negotiator to another” (Levy & Nial, 1993; via Perreault et al., 2011, p. 538). This idea demotes the idea of contentious, competitive communication because of negative affect.

According to the study performed by Perreault and Kida in which they studied client concessions using different communication styles, cooperative communication produced more positive affect and 38% more concessions than a contentious style. Furthermore, it produced concessions that averaged 88% of the auditor’s desired position, which is 14% higher than a contentious style. Regardless of the negotiation tactic or category used, a cooperative style created more concessions for the auditor, and thus a better result.

On the client’s side, even when the auditor presents with a cooperative communication style, the client may return with a contentious style. When this is the case, a contentious style from the client harms the auditor more than a contentious style from the auditor can harm the client. Thus, “more perceived inflexibility in management’s initial accounting position leads to a greater intention to use the integrative

strategy, Expand the Agenda, and the distributive strategies, Concede and Compromise” (Gibbins et al., 2010, p. 591). Notice that when distributive strategies are being used to produce positive affect, they are cooperative distributive tactics where the client gives up something (either by conceding or compromising).

Distributive

Distributive negotiating involves using contentious and competitive styles of communication that place negotiators as opponents. Distributive negotiation strategies are most commonly used and may be defined as “a procedure for dividing a fixed pie of resources” (Gibbins et al., 2010, p. 580). While this method has the highest rate of use, it puts the auditor and the client at odds. One example of a contentious method of negotiating in an audit is threatening the client with a qualified opinion. While this method does produce a high concession, it also produces negative affect in the auditor-client relationship (Perreault et al., 2007). This negative affect could result in the client not retaining the auditor in the following year or following suit. Due to these reasons, research suggests employing tactics less competitive, if possible, in the situation.

Integrative

An integrative approach provides a win-win option for negotiators. There is no fixed pie of solutions; there are a number of possibilities where negotiators can create alternative options that allow for both parties to “win.” Despite these advantages integrative strategies are less commonly used. However, research supports the use of integrative strategies over distributive strategies when possible. Integrative strategies take more time, effort, and creativity on the part of the negotiators to explore opportunities that may not be a part of the initial negotiation. “Fundamental to integrative negotiations

is the ability to understand your opponent's position" (Trotman et al., 2005, p. 351).

Some examples of integrative techniques useful for auditors are reciprocity, problem solving, principled negotiation, and social validation theory.

Reciprocity

As a part of a collaborative negotiating environment, one tactic auditors can use is a reciprocity-based approach. Reciprocity is not always specific to a specific audit need, but is more of a social consideration for the auditor to be mindful of. There are two instances of reciprocity this thesis focuses on: reciprocity as an indirect negotiation tactic that reinforces a collaborative communication environment and reciprocity as a direct negotiation tactic.

Indirect Effects of Reciprocity

During an engagement there are many common exchanges and interactions that occurs between the auditor and their client. Clients offer auditors access to their kitchen and wifi, auditors ask about the client's weekend and compliment the business, and, sometimes, lunch is purchased by either the auditor or the client. While no one says no to a free meal, this calls back the economic theory – there is no such thing as a free lunch. In this case, the cost of a free lunch is the obligation to reciprocate later. The purchase of lunch is a good example of indirectly influencing audit negotiation through reciprocity.

According to the rule of reciprocity, if someone does something for us “we are obligated to the future repayments of favors, gifts, invitations, and the like” (Cialdini, 2001, p. 18). This social obligation over-rules other tactics and even the power of likability. The rule knows no set ratios or proportionalities and therefore has proved fatal in history. Meaning that the social obligation does not require the repayment be equal, but

that it be done. This can mean the obligated party can feel obligated to consent much larger than the obligating party did or gave to incite the social contract.

To prove the power of reciprocity, Professor Dennis Regan of Cornell University performed an experiment in which a subject would work on a task alongside another person posing as a subject. This second person was an assistant to Professor Regan and a part of the experiment. At some point in the experiment, the assistant would leave to get himself a Coke. In the control groups, he would do just that, but in the experiment group he would also bring back a Coke, unsolicited, for the subject. After the task was completed, the assistant asked the subject to do him a favor – help him sell some raffle tickets. The results of the experiment showed that the assistant was more successful selling tickets to those who he had offered a free Coke to earlier (Cialdini, 2001).

Now back to our auditing example of the “free” lunch. The party who pays for the lunch incites the obligation for reciprocation from the second party. While lunch has no direct connection to the numbers on the financial statements, it does indirectly affect the financial statements by supporting a collaborative atmosphere and creating an obligation that may be paid during closing negotiation or during the information gathering stage during field work. One caveat to this auditor-client lunch example is that starting an argument with the client over who pays or seeming insincere through over-eagerness will not allow the rule to operate at full power because the client will be aware of the auditor’s intention of invoking the rule or gaining the upper hand and will ward against the effects.

Direct Effects of Reciprocity

Reciprocity can also have a direct effect during negotiation with a client. In the expanse of an audit, the auditor may find items of varying levels of materiality to discuss

with the client in a closing engagement negotiation. In fact, partners of accounting firms believe these negotiations to be an important part of their jobs (Gibbins et al., 2001).

While items below the scope/materiality of an audit are typically discarded by the auditor as a topic of discussion because of low importance, these items can be useful in the negotiation of materiality concerns when auditors employ the rule of reciprocity by “expanding the agenda” (Gibbins et al., 2010, p. 591).

If an auditor chooses to use direct reciprocity tactic, this is generally how it is done. When there are a number of audit discrepancies – some material, others not – the auditor can bring all items to the client’s attention which expands the agenda, the boundaries of the discussion and negotiation. Of course, the auditor does not tell the client what the line of scope or materiality is so the client will not know what is especially important to the auditor. Because of this poker face, the auditor can present all items as equally important to the client for the purposes of negotiation. The purpose of doing so is to satisfy the reality that “auditors and their clients tend to meet somewhere in the middle, it is likely that some clients expect the auditor to make concessions and that the auditor may need to go into negotiation prepared to do so” (Sanchez et al., 2001, p. 244). Bringing immaterial items into the negotiation gives auditors a concessionary option. A concessionary option is necessary because the primary duty of an auditor is to provide an objective opinion on the financial statements of its clients. Because of this responsibility, auditors cannot dismiss material misstatements of the financial statements or immaterial misstatements that sum to a material amount. That is why it is important for auditors to bring immaterial items to the negotiation that the auditors are willing and able to waive during the conversation with the client. The purpose of waiving the immaterial

items is to show the client the auditor's understanding and willingness to concede to some low level errors and re-establishes the collaborative atmosphere in the engagement.

As hypothesized by Sanchez et al. (2001), the literature shows more concessions were granted by the client when the reciprocity approach was used. More interestingly, the size of the concession made by the auditor did not affect the level of concession of the client – simply the use of any concession was enough. “The pattern of results suggests that, while the use of a concession approach (either high or low concession) appears to encourage the client to be more cooperative in the posting of the significant adjustments, increasing the number of adjustments included in the auditor's initial position does not” (Sanchez et al., 2001, p. 254). Because clients do not know the importance the auditor places on each difference, the client does not necessarily know the “size” of the concession the auditor is willing to make. Therefore it makes sense for the auditor, if possible, to offer a small concession because the size of the concession will not affect the success of the act.

The second half of the reciprocity experiment was to test the response of auditors to using negotiation tactics such as reciprocity. Sanchez et al. found that while some question the ethics on changing negotiation tactics on the clients to achieve a goal, the majority consent to using different tactics if it will provide more accurate numbers due to more significant adjustments being posted. The research suggests that the use of different tactics does increase the accuracy of the information presented and the financial statements prepared.

Why would an auditor use reciprocity?

Negotiating when the retention risk of a client is high and the client is a competitive negotiator are some of the more difficult negotiations and can be stressful for an auditor. Due to both of these elevated negotiating concerns, research supports applying a direct reciprocation approach. According to a recent study, most auditors place greater reliance on reciprocity when dealing with these difficult negotiations. According to research, a collaborative environment is in the best interest of the auditor in the negotiation. Meaning that when the client exhibits competitive behavior the auditor uses reciprocity to create a more collaborative environment.

There are a few reasons and cues that effect an auditor's decision of how heavily to rely on reciprocity. For example, a reciprocity-based strategy may be affected by certain client characteristics: (1) communication style and (2) the relative strength of the negotiator's position. For example, the more adverse the client behaves and the more precarious their retention, the more reciprocity is typically considered. A second is "the use of a reciprocity-based strategy may help the auditor cope with management pressures to waive or reduce significant proposed adjustments and thus has the potential to improve the quality of the financial statements" (Hatfield et al., 2008, p. 1186). According to research, when management contends with the auditors and no reciprocity is invoked by the auditor, it not only makes the audit more strenuous and slow than necessary, it also can lead to the auditor conceding too much in order to retain the client. "Further, studies have found that relatively small concessions can result in relatively large reciprocations and that those exposed to this strategy do not feel manipulated, but are more satisfied with the outcome than when this strategy is not used" (Hatfield et al., 2008, p. 1188). The

second half of this strategy is important as negotiation tactics should not be about manipulating another party but persuading them.

Problem-Solving

Problem-solving tactics are another integrative approach of persuasion. “Examples of problem solving tactics include sharing information (i.e., interests, goals, and limits), trading off certain issues, locating additional resources, and creating novel alternatives” (Bame-Aldred et al., 2007, p. 501). While this form of negotiation requires additional effort and preparation on the part of both negotiators, it ultimately allows both negotiators to walk away pleased and remaining on good terms. Sometimes negotiators like to behave as if a negotiation is a poker game – hiding their cards and bluffing when they can. Similarly, sometimes auditors like to do the same by hiding the materiality and scope from the client. However, sometimes when two parties share their goals, concerns, and reasons with one another, they may find that their desires do not entirely conflict and that there can be a newly possible alternative that pleases both. Problem-solving in a negotiation is a cooperative form of integrative negotiation that fully believes a creative solution is possible that will make both parties happy.

The Principled Negotiation

Principled Negotiation is closely linked to a problem-solving strategy as it also asks both negotiators to look from both sides and consider creative options that support the needs of both.

The Principled Negotiation method involves key underlying principles for effective negotiation. These are: interpret the problem by trying to put yourself in the other’s place; define the problem in terms of the parties interests regarding the

issue at hand; seek creative options that maximize the joint gain that can be squeezed out of the situation; create efficient two-way communications; and develop a good relationship by thinking of the other as a partner in negotiations rather than an adversity (Trotman et al., 2005, p. 352).

In the first half of this thesis, I discussed the primary principles of persuasion. Recall Stephen Manallack's five elements to the art of persuasion: connect emotionally, establish common ground, be dramatic, create credibility, and build teams. Principled Negotiation uses the elements of persuasion as cornerstones to negotiation – these elements, or principles, guide the negotiation to a success for both parties.

Social Validation Theory

Another type of integrative negotiation is using social validation theory. During their experiment on the best tactics of negotiation to use in an external audit, Perreault and Kida examined four different common audit tactics: threatening to qualify the auditor's opinion, warning of the possibility of a quality control review, providing the opinion of a technical expert, and social validation theory. These methods were tested not only for their effect on concessions, but also the measurable affect (how the client feels toward the auditor). While all tactics gained some level of concession, the measurable affect was largely variable. The ultimate result of the experiment was a recommendation of using the fourth tactic: social validation theory.

The direct application of social validation theory in auditing is describing how similar companies have handled similar accounting issues. "Social validation theory states that individuals frequently look to others for cues on how to behave" (Cialdini 1993; Perreault et al., 2011, p. 537). Companies often look at their own statistics in

reference to their close competitors in order to gage their success and to validate their choices. Knowing this, auditors can use the client's social reliance to aid the negotiation towards the auditors' desired result. For example, the auditor can reference an unspecified, unrelated third party, describe how they handled the certain accounting issue, and the result of that decision. "Because the argument involves presenting the accounting treatment adopted by an unrelated third party, it is unlikely that the treatment will be perceived as originating from a biased source... Additionally, the social validation persuasive argument may be perceived as significantly less confrontational than threatening to qualify the audit opinion or warning of a quality control review, and less manipulative than providing the opinion of a technical expert" (Perreault et al., p. 538).

As previously mentioned, social validation theory provided more concessions compared to warning of a quality control review and opinion of a technical expert. "This social validation persuasive argument yielded concessions that were 48% higher than warning of the possibility of a quality control review, and 21% higher than providing the opinion of a technical expert. In fact, participants in the social validation condition yielded almost completely to the auditor, with concessions equaling 89% of the auditor's desired position" (Perreault et al., p. 541). Threatening a qualified opinion resulted in a statistically similar amount of concessions as using social validation theory. However, when looking at the affective result of the tactic, the study showed that in comparison between using social validation theory and threatening to qualify the audit opinion, clients reported liking the auditor more, feeling happier, and being less frustrated when the auditor used social validation. Therefore the literature supports social validation as the preferable method when taking into consideration concession results (social

validation \approx threatening to qualify the opinion) and affect (social validation $>$ threatening to qualify the opinion). Dependent on the specific situation, these results support using social validation first and holding threatening a qualified opinion in reserve due to the possible relationship damage it can inflict.

As a bi-product of the experiment, Perreault and Kida found that “the participants’ perceptions of the effectiveness of these tactics did not match their actual concessionary behavior” (Perreault et al., 2011, p. 542). Many of the subjects would assert that these tactics would not be effective on them because of their independence and objectivity. However, the results of the experiment show otherwise. “Additionally, despite the large difference in concessions between the contentious and cooperative styles, participants appear to be unaware of their susceptibility to this type of manipulation” (Perreault et al., 2011, p. 542).

Taking a step back, it is difficult for a person not be moved through persuasion. Every day when people watch TV commercials, they are soliciting a form of persuasion. While it is rare that someone will assert that they bought a certain product or went with a certain insurance company due to a commercial, the commercials act as a mind teaser and reminder of the product or service. The commercials may be manipulating or persuading us in unknown way. So, as in the same way people do not realize that showing a grandmother’s birthday party on a commercial tugs at heart strings and increases nostalgia and warmth, negotiators may not realize that a subtle company comparison or more gentle tone is also a form of persuasion.

Prepare for the Negotiation

After becoming aware of primary persuasive options for use in negotiation, an auditor should prepare for the negotiation thoroughly. “The better prepared each negotiator is, the greater the likelihood of success in the negotiation” (Bame-Aldred et al., 2007, p. 498). Being prepared in a negotiation does not just mean knowing the ins-and-outs of the client’s revenue if revenue is the subject of contention. It also goes passed being generally aware of the full aspect of the audit and any large or small discrepancies. It means the auditor should understand both their solution set and the solution set of the client as well as any motivations the clients may have. Therefore, when the auditor initiates the negotiation, they will be prepared for whatever response the client offers and be able to problem solve towards a creative, collaborative solution.

Role playing

Arguably, the auditor should know the client’s side of the negotiation at least as well as, if not better, than their own. One technique that researchers have studied with the primary objective of training auditors “to focus more broadly and to consider the client’s position” is role playing (Trotman et al., 2005, p. 354). “Role-playing entails having the auditor take the counterpart’s place in a mock negotiation prior to the actual negotiation with the client” (Trotman et al., 2005, p. 354). In this role playing scenario, the auditor who will be negotiating with the client participates in a mock negotiation as if they are the client. Another manager or partner from the accounting firm will play the role of the auditor. Then the “client” and “auditor” work through the actual negotiation so that the negotiating auditor can understand the client’s perspective and motivation. Role playing

has proved a better learning tool for auditors than simply learning the techniques and discussing prior to negotiation.

The results of the study showed that “the role playing group led to an improved negotiation compared to the practice group in terms of ‘satisfaction with negotiation outcome,’ desirability of future dealings,’ and ‘counterpart understanding of options’” (Trotman et al., 2005, p. 361). Therefore, the research supports role playing prior to negotiation as a means of preparing. “The results [also] reveal that the role-playing group, on average, negotiated a greater inventory write-down than the practice group” (Trotman et al., 2005, p. 363). Due to the auditor’s deeper understanding of the client and the client’s positive affect due to the preparation and tactic the auditor uses in negotiation, the client may be more inclined to concede or decide on a creative alternative (Cialdini, 2001; Bame-Aldred et al., 2005). Also, the positive result could be a product of the added knowledge through role playing adding confidence which then aided a more successful negotiation.

Preparation and Reaction Differences between Client and Auditor

In the course of a negotiation, clients and auditors will need to prepare in different ways and each will react differently to persuasion. This thesis’s main focus is the auditor’s preparation, however this section will focus on both the client and the auditor and investigate how their persuasive responses compare. This section discusses how each feel about certain forms of negotiation and the accuracy of how each estimates the other party’s solution set.

In the study by Bame-Aldred and Kida, they asked auditors and clients to rank negotiation tactics and explain the ranking they chose. The top tactic for both auditors

and clients was a form of problem-solving, integrative negotiation where the negotiator provides “substantial rationale for [his or her] revenue recognition solution to persuade the client/auditor to change their mind” (Bame-Aldred et al., 2007, p. 507). On the other hand, the lowest rated option for both auditors and clients was the contentious option of threatening to qualify the opinion or terminate the relationship. So, while the auditor and the client have different goals and responsibilities in an audit negotiation, they agree on the form of negotiation that is preferred. “[Any] differences between the auditors and clients in their tactic ratings may be due to differences in their professional responsibilities (i.e., maintaining auditor independence versus maximizing shareholder value)” (Bame-Aldred et al., 2007, p. 508).

Clients and auditors appear to know an ample amount of the motivations of each – increasing income or conservatism (respectively) – but in terms of their specific goals and limits for individual negotiations, they often do not. Interestingly, the auditors had a more difficult time understanding the client’s position and finding the importance of the client’s position than vice versa. This could be due to the majority of clients first having several years of audit experience.

Client side

According to studies, the client is able to think from both sides of this issue and realize the importance of the auditor’s stance better than vice versa. As discussed in the “Solution Sets and Flexibility” section, in a study of client and auditor behavior “clients demonstrated a greater capacity to be flexible, determined the auditor’s goal and limit more accurately, and were more likely to use negotiation tactics such as bid high/concede later and trade-off one issue for another” (Bame-Aldred et al., 2007, p. 498). Therefore

when it comes to a negotiation, clients often start with a strong stance that is more than their actual goal, because they know the auditor will negotiate a more conservative option and the clients are willing to agree to it partially, so long as their goals can also be met.

Auditor Side

While clients are known to be more flexible, auditors are likely to be more cooperative than clients in a conflict largely due to the higher stakes on the relationship for the auditor (Fisher et al., 1996). Also, while the client is quite good at pin-pointing an auditor's solution set and understanding the auditor's motivations, the auditor should be concerned with underestimating the client. Auditors are expected to be experts on regulations and act as such. Due to their experience across businesses, auditors sometimes can be over-confident in their knowledge and "may not fully appreciate the client's motivations and familiarity with the company's business operations" (Trotman et al., 2005, p. 352). Auditors need to remember that even if the auditor is an expert in their craft, the client is also the expert when it comes to their business and books.

Interestingly, when auditors used persuasive tactics and integrative negotiation skills during a negotiation, the effect of the tactics was not purely focused on the client. "Auditors' negotiation goals are significantly higher with strategy use than without it. Similarly, auditors' negotiation limits are significantly greater when the strategy is used than when it is not available" (Hatfield, 2008, p. 1201). Also, according to the study, the auditor's goals were so much higher when they used negotiation tactics that "the auditors' *minimum* required adjustment when the strategy is used is slightly higher (though not significantly) than the auditors' *goal* when the strategy is not employed" (Hatfield et al, 2008, p. 1201). So, even if the tactics may not appear fruitful for use with

the client, the tactics engage the auditor in a way that motivates them to push for more. Because of this additional motivation, the financial statements are more accurately presented, which is the ultimate goal of the audit.

Resistance

Another reason research supports accountants learning persuasive tactics to use in their work is that CEOs, CFOs, controllers, managers, etc. did not rise to their positions in their companies by simply being “good” or “competent.” These high level executives rise to their positions by being charismatic and knowing how to work well with others and manage perceptions. It is important for independent accountants to also arm themselves with knowledge of persuasion for this reason. In this section, this thesis focuses on the motivation for a participant to resist, the susceptibility understanding required of participants for success, and some basic persuasive methods to resist.

The primary resource in this thesis for understanding resistance to persuasion is “Dispelling the Illusion of Invulnerability: The Motivations and Mechanisms of Resistance to Persuasion” by Sagarin, Cialidini, Rice, and Serna (2002). In their study they “hoped to provide a treatment that would instruct individuals in how to protect themselves against a pernicious variety of persuasive appeals – those that can be considered illegitimate or dishonest” (Sagarin, 2002, p. 526). While this thesis is not solely focused on resisting illegitimate authority, the principles learned from Sagarin et al. (2002) can be applied to a wider range of resistance to persuasion. To create the “treatment,” Sagarin et al. (2002) studied existing techniques like forewarning and inoculation. “Research on forewarning has examined the impact of warning a persuasive target of either the persuasive intent of an upcoming message or the content of an

upcoming message” (Sagarin et al., 2002, pg. 527; Jacks & Cameron, 2001). According to a literature review by Cialdini and Petty (1981) “only a forewarning of persuasive intent reliably causes resistance” (Sagarin et al., 2002, p. 527). Furthermore, the participants who resisted persuasion did so because the warning of persuasive intent empowered them to choose rather than be as swayed by the persuasion. Inoculation is similar. “McGuire predicted that, in the same way that people can be made resistant to a disease by being inoculated with a weakened form of that disease, persuasive targets could be made resistant to an attitudinal attack by being inoculated with a weakened form of that attack” (Sagarin et al., 2002, p. 527; McGuire, 1964). While Sagarin et al. found the specifics of forewarning and inoculation inapplicable for their experiments, McGuire’s focus on motivation and ability as conceptual guidelines to the critical components of a resistance-enhancing treatment were adopted.

Motivation and Ability

The importance of motivation is often understated. During the time of the American Revolution, the colonies were the underdogs by a fair shot. Not only were they fighting the greatest nation in the world at the time who had the greatest navy, they also were out-numbered ten-to-one. However, having something to fight for motivated to the success of the revolution and the United States of America. At that time, Patrick Henry said, “Three millions of people, armed in the holy cause of liberty, and in such a country as that which we possess, are invincible by any force which our enemy can send against us.” In the American Revolution, the motivation was liberty from England and from the tyranny of the king. This motivation united the ill-trained militias and inspired them to

continue on even after the most disparaging losses. The motivation to resist – whether it be in historical war or business persuasion – has a proportionally identical importance.

Resistance motivation for clients will differ to that of the accountant. Clients will most likely subscribe to “the traditional reasons that individuals reject incoming information – the information is discrepant from what recipients clearly know and/or prefer” (Sagarin et al., 2002, p. 528). On the other hand, an ideal motivator for the accountant to resist persuasion is “the perception of manipulative intent” (Sagarin et al., 2002, p. 528). Because people dislike others manipulating or deceiving them, the realization and recognition of its occurrence inspires resistance. As a realistic example, Fein, McCloskey, and Tomlinson (1997) used a trial setting to demonstrate “that pointing out a persuader’s undue manipulative intent rendered the persuader’s (otherwise convincing) message ineffective” (Sagarin et al., 2002, p. 528; Fein, McCloskey, and Tomlinson, 1997). Translating this to a practical application requires the individual to be on guard and to recognize moments of manipulative intent.

Consider a chess match in which Magnus Carlsen, World Chess Champion 2013, is paired against a beginner who is still unsure of the difference between a rook and a pawn. Observers could surmise that Carlsen has the upper hand and will squash his opponent. However when Magnus Carlsen competed against the then reigning champion Viswanathan Anand, the game was more evenly matched and many were unsure who would emerge victorious. While it is not suggested that a negotiator use a contentious, us-versus-them tactic, it is also incorrect for a negotiator to allow the other party to have the upper hand due to the negotiator’s own lack of preparation and persuasive knowledge.

Susceptibility

As a part of their research on resistance to persuasion, Sagarin et al. conducted experiments testing if identification of illegitimate authorities affected the potency of their persuasive tactics. The general findings of these experiments was that by “treating” participants to decipher illegitimate authority from legitimate, the persuasive power of the illegitimate authorities showed only a smaller, and much less significant, decrease in effect. As a result of these experiments, however, other unexpected, peripheral findings were discovered. Among these peripheral findings is the susceptibility of all participants.

Although participants receiving the treatment rated the ads containing the legitimate authorities as significantly more persuasive, as compared with controls, they did not resist the ads containing illegitimate authorities more effectively than did controls. These results suggest that participants may have agreed with the characterization of illegitimacy presented in the treatment but may not have acted on it because they believed that they were not susceptible to it (e.g. ‘I wouldn’t have fallen for the unethical ads anyway.’) (Sagarin et al., 2002, p. 533)

This experiment teaches that the overconfidence of human nature and acts as a warning to all that no matter if one is armed with a persuasive defense or not, they can still fall prey. That is why in their third experiment, Sagarin et al. (2002) hypothesize that something other than knowledge of illegitimate authority would be necessary to motivate resistance: “Participants must learn that they are personally susceptible to the risk under consideration” (p. 533).

In designing their third experiment, Sagarin et al. (2002) considered methods of convincing participants that they were more vulnerable to the tactics than they thought.

This proved difficult as simply alerting participants to their vulnerability is ineffective (Sagarin et al., 2002). According to Aiken et al. (2001) there are three stages of perceived susceptibility to risk – awareness, general susceptibility, and personal susceptibility. In the study by Sagarin et al. (2002), they were able to move participants from understanding general susceptibility to personal susceptibility by arranging for participants to “acknowledge their own personal vulnerability” (Aiken et al., 2001, p. 730). Without an understanding and belief of this vulnerability, participants could not effectively resist.

When entering a negotiation, it should be with a firm understanding that the negotiator can be fooled by the other party. Negotiators should remember the standard of professional skepticism that can be condensed to three words: “trust, but verify.” With the lens of resistance and susceptibility to persuasion, professional skepticism becomes even more important.

Risks with Resistance

No blanket list can be all-inclusive of the persuasive tactics potentially present in the business environment. There is no “persuasive playbook” to memorize and strategize. However, understanding a few of the methods and applying the principles and behaviors to a variety of situations is a start to becoming an aware user and observer of persuasion in the workplace. In the following section, I focus on a word of precaution about automatic response, repercussions to teaching resistance, and the bad reputation for persuasion that is created by some tactics.

Automatic Response

As mentioned before, business professionals, and people in general, are more susceptible to persuasive tactics than they know or believe. In order to illustrate and thus guard against this vulnerability, consider the principle and power of automatic influence. According to Cialdini (2007) all species are socialized to understand certain actions or circumstances require certain responses. A simple example of this automatic response is the custom of replying “you’re welcome” when someone says “thank you.” As a participant in that exchange, when someone says “thank you,” the response of “you’re welcome” is not consciously thought about. It is an automated, compulsory response. This natural automaticity can be used as a persuasive tactic when manipulated by the persuader to fit their persuasive needs. Cialdini (2007) explains this by saying:

Our automatic tapes usually develop from psychological principles or stereotypes we have learned to accept. Although they vary in their force, some of these principles possess a tremendous ability to direct human action. We have been subjected to them from such an early point in our lives, and they have moved us about so pervasively since then, that you and I rarely perceive their power. In the eyes of others, though, each such principle is a detectable and ready weapon – a weapon of automatic influence. (p. 9)

As a part of this discussion, Cialdini (2007) lists three components shared by methods of automatic influence which include “the nearly mechanical process by which the power within these weapons can be activated, ... the consequent exploitability of this power by anyone who knows how to trigger them,” and “with proper execution, the exploiters need hardly strain a muscle to get their way” (p. 11). While the first two given

components pose no threat – they are simply the consequence of general knowledge about any persuasive method – the third is what makes a weapon of automatic influence dangerous to the receiver. Because symptoms of automaticity are woven into the fiber of organisms, when a persuader prompts an automated response from a persuadee, the persuasive manipulation often goes without notice from persuadee or peripheral observers. To achieve this simple, hidden version of persuasive manipulation, the persuader needs only put in minimal energy or effort. They must only trigger a response rather than focus on creating an argument, establishing credibility, or building a relationship. This response triggering leaves the persuadee unaware of the manipulation. More than that “even the victims themselves tend to see their compliance as determined by the action of natural forces rather than by the designs of the person who profits from that compliance” (Cialdini, 2007, p. 11). This makes the weapon of automatic influence extremely potent which can be valuable to the user, but a danger for the persuadee.

An example of automatic influence being used for ill is stores that abuse the automated response of customers towards sales. Knowing that customers are more likely to buy an item that is placed on clearance because it is comparatively less than the item would be at regular price, some stores will overprice their merchandise in order to place it on “sale” at the original price with the nomenclature beside it saying “Reduced from _____” (Cialdini 2007). Because it appears the regular price item is being sold at a discount, more customers purchase the item and consider it a bargain. This form of automatic influence is called the contrast principle.

The contrast principle focuses on perspective and perception. A person with frostbite will believe lukewarm water to be excruciatingly hot and a person on fire will

believe lukewarm water cold. This is an extreme illustration of the contrast principle, but it rings true. In both scenarios the water is the same temperature – the difference is the perspective of the person. Students of persuasion should also understand the contrast principle as it affects the perception of methods of persuasion. For example, if the result of persuasion is some unwanted action or behavior by the persuadee, then the persuadee’s perspective of the persuasive technique will be seen negatively. In this case, the persuadee may describe persuasion with words like “manipulation” and “exploitation” alongside their typical negative connotation. However, in the perspective of the persuader looking for an advantage through persuasion, the persuasive technique will be seen as a useful tool that led to a proper conclusion. While this section does warn of some persuasive techniques, it is not at all intended to dissuade the use of persuasion; it is instead intended to make targets of persuasion aware of their vulnerability and enable them to arm themselves as they see fit.

A Possible Outcome of Preparing Against Persuasion

One of the risks of teaching resistance to certain persuasive techniques is the potential of increasing the potency of others. For example, with the initial treatment against illegitimate authority by Sagarin et al. (2002), they found that “participants learned not only to devalue inappropriate persuasive information but also to enhance the value of appropriate messages” (p. 531). In the treatments, they focused on being able to perceive legitimate versus illegitimate authority during a persuasive attempt. Because of this focus on simply identifying and rejecting the illegitimate authority, the participants unintentionally learned to give legitimate authorities additional reliance.

Stigma against Persuasion Usage

When it comes to persuasion in accounting, some have reservations due to unfounded stigma specifically when independence is brought into the conversation. Based on information on a variety of methods and tactics, I believe one of the tactics that lead to this stigma is reciprocation. Reciprocation is the social “rule” that says if one party performs an act of kindness for a second party, then the second party has a socially unquestioned obligation to return this good gesture. Something interesting about this reciprocity phenomenon is that the acts do not have to be equal. Furthermore, Cialdini (2007) asserts that being liked by the other party is a strong tool in negotiation, but “the relationship between liking and compliance was completely wiped out” when the rule of reciprocation was used (p. 21).

Cialdini (2007) subheads two important aspects of reciprocation – it enforces uninvited debts and can trigger unfair exchanges – and while those need to be remembered and definitely play into the business world, this section will briefly comment on concerns about reciprocity that contribute to the stigma against persuasion. These concerns include similarity to bribing, reciprocal concessions, and automatic influence.

Bribing

As mentioned, independence is the main concern when conversations about persuasion in accounting occur. Specifically in the field of reciprocation, quid pro quo is the main concern. In Latin, quid pro quo means “something for something.” This kind of behavior is especially recognizable in politics. In politics, there is proven corruption in the field due to this behavior. For example, when “addressing the question of whether a connection existed between the \$1.3 million he [Charles H. Keating, Jr.] had contributed

to the campaigns of five U.S. senators and their subsequent actions in his behalf against federal regulators, he asserted, ‘I want to say in the most forceful way I can: I certainly hope so’” (Cialdini, 2007, p. 26).

Bribery is a concern because it impedes the basic ethics of the accountant and corporate parties involved. In an effort to speak plain, bribes are not acceptable under business practice. Ethics demand strict rejection of bribes and similar behavior. Remember also that a component towards strong persuasion is to build the confidence of the persuadee by creating a strong sense of ethos (Manallack, 2011). Accepting bribes may accomplish a short-term, singular goal, but it hurts the person’s ethos for integrity in the long-term.

Reciprocal Concessions

Reciprocal concessions can be a persuader’s best friend or worst manipulator. According to Cialdini (2007) there are 2 main consequences of the reciprocity rule: (1) “the obligation to repay favors,” and (2) the “obligation to make a concession to someone who has made a concession to us” (p. 37). Reciprocal concessions focus on the second consequence. A reciprocal concession occurs when one party requests something of a second party which the second party rejects. The first party then requests something smaller or less intrusive, and the second party now agrees because of the need to concede to the first party which just conceded to them. As the negotiator using this tool, there is no ethical concern, if the technique is not abused. As a matter of fact, it is a highly suggested tactic. However, as the persuadee, this use of the reciprocity rule should be watched. Persuadees should be aware and remember to look at decisions logically no matter if there was a prior concession or not.

Automatic Influence in the Reciprocity Rule

With this idea that a target can be easily triggered into a concession because of the rule of reciprocity, the concern focuses towards automatic influence. Recalling back the principles of automatic influence and the dangers that accompany them and combining them with the principles and dangers of the reciprocity rule, there is a clear vulnerability the target faces: if the persuader triggers the reciprocity rule by so much as a cup of coffee, the automated response is for the target to concede. This is why the reciprocity rule should be named as a danger that it would be valuable to train against.

Resistance to the Reciprocity Rule

While some believe the best way to protect against the power of the reciprocity rule is to prevent the rule from ever being triggered by rejecting the initial favor, Cialdini (2007) asserts that this creates more insulting than beneficial action. Instead Cialdini (2007) “advises us to accept the desirable first offers of others but to accept those offers only for what they fundamentally are, not for what they are represented to be” (p. 52-53). If accepted as a favor and nothing else, then we fulfill the social obligation of accepting a favor while remaining free from a reciprocation obligation. If the favor does present later as a trick to gain compliance, then the persuadee should recognize the favor as such at that time. There is no need to think the favor is a persuasive trick and fear the favor until necessary. Then when the motive of the favor become apparent, recognizing the favor as a manipulation to achieve compliance negates the reciprocation rule. “As long as we perceive and define [the persuader’s] action as a compliance device instead of a favor, [the persuader] no longer has the reciprocation rule as an ally: The rule says that favors

are to be met with favors; it does not require that tricks be met with favors”
(Cialdini 2007 p. 53).

DISCUSSION

Though not often thought of in the same sentence, persuasion and accounting are more intertwined than most would think. Accountants need persuasion to improve client relations, presentation of financial statements accuracy, and information gathering. This thesis looks at two disciplines of accounting and the effects and usefulness of persuasion within them. Three main questions were asked and answered:

- 1) How is persuasion being used in accounting currently?
- 2) Does research support persuasion usage to improve the efficiency and effectiveness of accounting?, and
- 3) How can persuasion be used better?

Because this thesis is conceptual, one limitation faced is reliance on research and studies from scholarly articles. Optimistically, the articles are mostly in the near recent because research for negotiation and persuasion in accounting is only beginning and will hopefully gain in popularity. These materials bring strong understanding of the matter at hand, but in this thesis, examples are conceptual. The researchers, on the other hand, faced the limitation that the experiments were only simulated (and based on actual scenarios) rather than being actual scenarios.

How is persuasion being used in accounting currently?

Managers and partners report negotiation as a large part of their job. Usually, mid-level and low-level staff perform most of the audit steps, then the managers and partners review and negotiate with the client. But research shows that while they know

that their job requires negotiating with clients, many partners and managers would neglect to mention their use of persuasion during the negotiation. But even knowing that they are using persuasion, accountants do not currently study approved methods or focus on persuasion enough. Interestingly, even when accountants knew that they (the accountant) used persuasion, they did not know their susceptibility to the persuasion of the client. They could see the effects of their (the accountant's) use of persuasion on the client, but perhaps through false confidence in their independence, neglected to entertain the idea of the client also using persuasion tactics.

Does research support persuasion usage to improve the efficiency and effectiveness of accounting?

Using persuasive tactics thoughtfully requires attention and preparation. A concern some accountants have is that persuasion usage will take more time and impede independence. Studies have found both of these concerns unwarranted.

First, using persuasion effectively will require some additional preparation and resources, but the small addition adds much more positive to the engagement than the small amount of time takes away. One study cited that auditors who intentionally used a negotiation tactic aimed for harder to achieve client adjustments. In many cases, the auditors using negotiating tactics had solution limit higher than their non-negotiating goal.

This brings us to accuracy. Auditors using negotiating tactics were able to reach an amicable solution with the client faster and closer to the auditor's goal. Integration negotiating tactics create a collaborative atmosphere between auditor and client which builds the relationship. This relationship can amount to easier negotiations, higher client

concessions, client retaining, client referrals, and who knows what else. So, an extra hour of preparation should not be the concern – the opportunity cost of not using a negotiation tactic is much larger than one hour of analysis and practice. Furthermore, because using persuasion can limit the amount of back-and-forth argument and discussion between the auditor and client during negotiation, persuasion can be a more efficient means of achieving a goal.

How can it be used better?

I have tried to condense the many theories and ideas for accounting persuasion into one thesis and speak to the discipline as a whole. One aspect that was not a focus of any of the current studied research is the effect of combining tactics. Researchers often mentioned in the articles that the tactics may change as the negotiation persists or that, to maximize effectiveness, negotiators will change tactics as they reach different points in the negotiation. However, no research has been done to examine which tactics are most effective together or how the change of tactics affects the subtlety of persuasion and effects the auditor-client relationship.

Scenarios Prescription

While this illustration does not include any peripheral details to include in the analysis and I, thusly, cannot understand the full situation of either ABC or ODIT, based on the information provided I have a few recommendations for the negotiation between ODIT and ABC.

Firstly, I recommend ODIT use the direct reciprocity method by bringing the material revenue misstatement and the immaterial expense misstatement to the negotiation. As the expense misstatement is immaterial, ODIT can feel secure about

waiving the client adjustment. Because ABC is not aware of the materiality line set by ODIT, the concession of the expense misstatement will have full effect. Remember from ABC's solution set, though, that they are willing to concede to the expense adjustment, but not the full revenue adjustment. In the negotiation, ODIT should prepare in case bringing the expense to the discussion allows ABC to leverage their concession of the expense to adjust less of the revenue misstatement to the point that ODIT reaches their lower limit of qualifying the opinion.

If ABC does leverage a concession of the immaterial expense understatement, ODIT can counter by using social validation theory to explain how a similar company found some happy ending despite reducing their revenue. This may sound something like: "I understand you don't want to reduce your reported revenue. You know, I've seen a similar situation with a client two years ago. When they reduced their revenue according to our GAAP recommendation, instead of hurting them, they ended up X, Y, and Z."

If that still is ineffective, there are two options that quickly follow one another. First, ODIT can explain per GAAP resources the reason why the revenue is overstated and must be reported in a different way (this should have already been done as part of the first step, but repeating it prior to the final option is important). If ineffective, then the second option edges towards the combined extreme limits for ODIT and ABC: ODIT may need to threaten to qualify the opinion (if the misstatement is still material) which could encourage ABC to terminate the relationship immediately or for the next year's audit. Due to these possible ramifications, I recommend holding this as a last resort.

IMPLICATIONS & CONCLUSION

Accounting is so much more than large desk calculators and complicated excel tables. Both are important tools for an accountant, but no more important than knowledge of persuasion. Without technical skills and extensive accounting knowledge, accountants could not become experts in their field and create credibility for themselves. But without persuasion, public accountants would have no clients to build that credibility on.

Persuasion does not just happen – it takes effort, research, and practice. One principle of persuasion is that people do more for the people they like. Knowing this, accountants should remember to not be too action-oriented as to isolate themselves from the client. Connecting emotionally with the client and building a collaborative atmosphere pays off during negotiation.

Another important principle in persuasion is the all-surpassing power of reciprocity. This social rule is unflinching in its prompting of concessions. Accountants should remember that simple tasks or concessions performed by them could bring large concessions from the client during negotiation. Also, though, accountants should be aware that reciprocity could also be enforced from them. So, when the client invokes the rule of reciprocity, accountants need to be polite but maintain independence.

Integrative negotiation tactics are the most suggested form of negotiation. Though they may take more preparation, the results in terms of size of client concessions and affect prove that integrative tactics provide more accounting accuracy and better relationships. Some forms of integrative negotiation are problem solving, principled negotiation, and leveraging social validation theory.

Preparing for a negotiation does take a little more time when negotiators are trying to use a specific tactic. They will need to look at and know their side of the issue as well as the motivations of the other party. Without knowing the results, accountants are wary of taking this extra time and effort. But when shown the results of preparing for a negotiation through role playing or discussion of the negotiation between partners, accountants tend to agree that using negotiation tactics is in their best interest. Not only do negotiation tactics increase concessions and affect from the client, but it encourages the accountant to try for more in the negotiation. In short, persuasion increases the accuracy and the effectiveness of an audit while strengthening relationships with clients.

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