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The Effects of Social Costs and Internal Quality Reviews On Auditor Consultation Strategies

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**The Effects of Social Costs and Internal Quality Reviews on Auditor Consultation
Strategies**

by

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ABSTRACT

Seeking advice from knowledgeable individuals within the firm is an essential feature of firms' quality control systems and is intended to improve auditor decision making. It is important to understand factors that encourage or discourage auditors from proactively seeking out help and relying on the "right" people because advice can influence audit judgments. Existing studies in accounting focus on factors that affect how auditors *use* the advice they obtain during informal consultations. In this study, I examine factors that affect *when* auditors seek advice, to *whom* auditors go for advice, and *how* they present audit issues to the advisor, which are likely important determinants of the nature and amount of advice auditors receive. I predict and find that the social costs involved in seeking advice can decrease the likelihood that auditors will seek advice and cause them to consult laterally as opposed to raising issues up the organizational hierarchy. In addition, even when auditors seek advice and go to the most knowledgeable source, social costs can cause auditors to argue for their position more persuasively and present a less balanced set of facts to the advisor than when social costs are low. I find that the internal quality review process can help overcome otherwise strong social pressures and promote more effective consultations among auditors. Implications for researchers and practitioners are discussed.

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I. INTRODUCTION

Auditors often desire advice from others to supplement their personal experience or knowledge when faced with difficult judgment tasks. As a result, they frequently consult with individuals inside the firm, both formally and informally, to obtain advice or guidance when making difficult decisions (Gibbins and Emby 1985; Danos et al. 1989).¹ Seeking advice from knowledgeable individuals within the firm is an essential part of firms' quality controls and is intended to improve auditor decision making (Ng and Shankar 2010; AICPA 2009). According to the AICPA's Statement on Quality Controls, accounting firms should ensure that consultations: (1) take place on the appropriate issues, (2) occur with professionals with the appropriate knowledge, seniority, and expertise, and (3) all the relevant facts known to the engagement team are provided to those consulted (AICPA 2009). When these guidelines are met, consultation helps promote quality and improve professional judgment. I explore how the social costs involved in seeking advice may prevent these guidelines from being met. I also investigate how the internal quality review process, which is a within-firm ex-post inspection process used to monitor audit quality, may aid in promoting more effective consultations among auditors.

Understanding factors that influence auditors' informal consulting behavior is important because in many instances, auditors receive informal advice or guidance only

¹ Consistent with Schrah et al. (2006) and Bonaccio and Dalal (2006), I define "advice" as a specific recommendation or appraisal of facts.

when they seek it out. Existing studies in accounting focus on factors that affect how auditors *use* the information or advice they obtain during informal consultations (Kadous et al. 2010; Ng and Shankar 2010; Shankar and Ng 2008). Researchers have yet to fully investigate, however, factors that affect *when* auditors seek advice, to *whom* auditors go for advice, and *how* they present audit issues to the advisor, which are important determinants of the nature and type of advice auditors receive.

Conventional wisdom suggests that auditors will always seek advice from the most experienced/knowledgeable person accessible. However, auditors' social motivations to maintain and enhance their ego and image can compete with instrumental motivations to obtain useful information and make high quality judgments.² In other words, the cost of seeking such advice in terms of reputation and ego may influence whether advice is actually sought. This can have implications on the efficiency of the audit, if time is wasted. It can also affect the quality of the audit if the auditor avoids getting the necessary help altogether or from the right person.

I investigate how social costs, defined as threats to the auditor's ego (particularly feelings of embarrassment or incompetence) and/or image within the firm, can negatively influence whether an auditor consults, with whom the auditor chooses to consult, and how the auditor communicates information to their advisor. If the auditor is more concerned about embarrassment or others perceiving them as incompetent or incapable than they are about receiving helpful advice, they may not seek advice from the most qualified professional (i.e., the one with the most knowledge, seniority, and expertise) in

² Social motives consist of two dimensions, the self-view and others' view of the person, and involve the desire to protect or enhance one's image and/or ego. Conversely, instrumental motives involve the desire to obtain useful information, enhance accuracy or performance, and develop competency (Morrison and Bies 1991; Anseel et al. 2007). This study focuses on the desire to enhance judgment performance.

order to “save face.” Similarly, if the auditor is trying to manage their image or avoid feeling incompetent, they may present the advisor with information in a biased or persuasive manner, effectively precluding the advisor from generating an unbiased opinion.³ In these types of situations, the auditor’s consultation behavior is influenced by social motives at the expense of improving decision-making.

One structural mechanism in firms that may increase auditors’ instrumental motivation and mitigate the negative effects of social costs is the internal quality review. In response to changes in the current regulatory environment, firms have ramped up internal quality monitoring, which has resulted in increased scrutiny from within-firm engagement reviews.⁴ When an internal quality review appears likely, the associated increase in scrutiny is predicted to shift auditors’ focus away from the social costs associated with seeking advice towards instrumental motives of making high-quality judgments. I predict that this affects auditors when deciding whether to seek advice, when choosing an advisor, and when communicating the issue to the advisor.

Using existing research in accounting, psychology, and organizational behavior, along with information obtained through interviews with practicing auditors, I develop predictions regarding the impact of the perceived social costs of seeking advice and the anticipation of an internal quality review on the auditor’s informal consultation process. I test these predictions in a 2 x 2 between-subjects experiment, with social costs manipulated as either high or low and the likelihood that the engagement will be selected for an internal quality review manipulated as either highly likely or not likely. Practicing

³ This biased presentation of information could be intentional or unintentional. The distinction of intentionality is not addressed in this paper.

⁴ While the number of reviews has increased, uncertainty still exists as to whether or not select engagements will be chosen for review.

audit seniors from each of the Big 4 firms are given a situation where an audit issue comes up, and they have to make a decision about whether additional inventory procedures must be completed. They are provided with facts about the client, the engagement, and the inventory issue, and are then given the opportunity to consult another auditor for advice.⁵ I measure both the likelihood that they will seek advice and from whom they choose to seek the advice, and I also collect qualitative text responses representing the communications the participant would have with their chosen advisor.

Consistent with my predictions, I find that auditors are less likely to seek advice from another auditor when social costs are higher. The effects of social costs are moderated, however, by the anticipation of an internal quality review. That is, social costs have less of an effect when an internal quality review is highly likely, making auditors least likely to seek advice when social costs are high and the engagement is not likely to be selected for an internal quality review. Even if auditors do seek advice, social costs and internal quality review factors are influential in determining who the auditors chose to go to for advice. Results suggest that auditors are more likely to go up the organizational hierarchy for help as opposed to laterally (e.g., consult the manager versus a peer) when social costs are lower and also when an internal quality review is likely to occur. Similar to the tests examining whether they would seek advice in the first place, auditors are least likely to consult the manager when social costs are high and the engagement is not likely to be selected for an internal quality review. The threat of an

⁵ The case was developed with the help of partners, senior managers, and managers from the participating firms to ensure that it was an issue where the manager on the engagement would want to be consulted on the issue.

impending internal quality review increases the likelihood that the manager is consulted regardless of social costs.

I also find that auditors change the way in which they communicate audit issues to their advisor based upon the social costs they are facing and the likelihood that they will encounter an internal quality review. More specifically, auditors differ in the extent to which they try to persuade the advisor and change the type of facts that they provide. Auditors facing higher social costs are more persuasive in their techniques, providing more convincing messages and fewer facts to support alternatives to their position, likely as a means to reduce the threats to their ego/image. The anticipation of an internal quality review, with its increase in potential scrutiny and focus on justification of decisions, affects auditors facing high and low social costs in different ways. Those facing high social costs become less persuasive in how they communicate their message when an internal quality review is highly likely, but still present a relatively unbalanced set of facts to their advisor. Those facing lower social costs actually increase the number of facts presented to the advisor, especially those supporting alternatives to their position, while they argue less persuasively in the message to their advisors. Thus in all cases, the anticipation of an internal quality review seems to promote more effective consultations, at least in part. An implication of these findings is that firms may be able to alter the behavior of auditors simply by increasing the perception that they will be subject to an internal quality review.

I also find that certain demographic characteristics of auditors are important in determining their advice-seeking behaviors. More specifically, females are more likely to seek advice than males. Lower performers (i.e., those with lower self-reported

performance ratings), who are presumably the ones most in need of help, are the least likely to seek it. Those with prior PCAOB inspection experience are the most likely to seek advice and the most likely to go to the manager. Less experienced auditors and those that are less likely to seek advice are the least likely to consult the manager. And finally, more confident auditors are more likely to consult the manager.

Taken together, these results have important implications for practice as they shed light on the importance of the engagement environment in fostering advice-seeking behaviors. In addition, these results suggest that the threat of an internal quality review may promote more frequent and more effective consultations by providing auditors the extra incentive they need to overcome fears of “looking dumb” when asking questions. In other words, firms may help auditors overcome otherwise strong social pressures by increasing the belief that engagements will be reviewed. This idea is supported by supplemental analyses, where I find auditors believe that the internal quality reviews in their firm are likely to affect decisions made on the engagement, make auditors justify their decisions more thoroughly, and increase the importance of the reasonableness and quality of audit judgments.

This study investigates important quality control and professional development mechanisms within accounting firms: consultations between auditors and internal quality reviews. Public accounting firms are structured in such a way that employees are either moving up the ladder or out of the firm (Baker et al. 1988). The learning curve is exceptionally steep, and auditors are constantly presented with new tasks and challenges. They must leverage the knowledge and experience of others to complete those tasks effectively and efficiently, and this dependence on others within the firm makes the

consultation process a key aspect for maintaining audit quality. This study advances our understanding of informal auditor consultations by identifying instances when the assumptions necessary for this quality control system to operate properly might not hold. It is important to understand factors that encourage or discourage auditors from proactively seeking out appropriate help when necessary because of the significant impact advice can have on audit judgments.

This study contributes to both the accounting literature and the broader advice-seeking literature in psychology.⁶ I identify key factors that organizational behavior literature suggests may individually drive consultation behavior and investigate the interactive effects of these factors in a contextually relevant audit setting. In addition, I integrate the social and instrumental motives framework (developed in the organizational behavior literature) with the current advice-seeking literature to provide a new perspective on the advice-seeking process. The existing advice-seeking literature tends to focus on what decision makers do once advice is received. I advance this stream of literature by proposing that the advice-seeking process is much more complicated, often involving a proactive process initiated by the decision-maker. I consider decision points in the process that occur prior to advice being received, including factors affecting decision-makers' choices regarding when to seek advice, who to go to for advice, and how to communicate the issue to the advisor. These choices determine the nature and

⁶ This study differs from research into other types of information-search behavior studied in the accounting literature (e.g., Kennedy et al. 1997; Cloyd and Spilker 1999; Kadous et al. 2008). Auditor consultations are interpersonal activities involving a search for another person's appraisal of a given set of facts relating to an audit issue. This differs from information search behaviors that do not require the involvement of another auditor and which involve a search for *facts* rather than another's *evaluation* of the facts. Auditor consultations also differ from feedback-seeking behaviors due to the nature of the appraisal sought. Feedback-seeking entails obtaining another person's appraisal of the seeker's performance rather than another person's evaluation of an unresolved audit issue.

amount of the advice received, which are assumed to be fixed starting points in existing literature. I also examine advice-seeking in a context with strong prescriptions against the influence of social costs (i.e., quality control standards for consultations), which separates this particular context from others. This study examines how the ex-post internal quality review process can affect the judgment and decision-making of auditors *during* the audit. With the exception of Stefaniak (2009), which looks at the impact of the anticipation of internal quality reviews on audit fees, accounting research has left the effects of this type of quality control system on auditor behavior unexamined.⁷ I suggest and find that while such reviews are considered an ex-post evaluation of audit quality and a source of information for firms' continued improvement; they also function to proactively promote audit quality when the anticipation of a review induces auditors to focus on making high-quality judgments. I provide evidence of how the anticipation of an internal quality review alters judgments made during the audit engagement, before the team even knows there will be a quality review.

The remainder of the paper is structured as follows. Section II provides a background of auditor consultations, Section III develops the hypotheses, Section IV discusses the experimental methods, Section V presents the results, and Section VI offers conclusions and limitations.

⁷ Though accounting researchers have investigated peer reviews (e.g., Hilary and Lennox 2005; Lennox and Pittman 2010; Anantharaman 2012), these reviews differ from internal quality reviews in that they are conducted by another firm rather than other members within the firm. They are conceptually more similar to PCAOB inspections.

II. BACKGROUND – AUDITOR CONSULTATIONS

In practice, auditors consult with a wide range of different parties, both formally and informally, to get advice and guidance when making difficult decisions (Gibbins and Emby 1985; Danos et al. 1989). This study focuses on informal consultations. According to Gibbins and Emby (1985, 209), "... respondents indicated that consultation is very important to [professional judgment in public accounting], particularly consultation with peers, superiors and technical advisors, and particularly after knowing what decision/action is preferred but before acting" (cited from Kadous et al. 2010). In fact, over 90 percent of the accountants in that survey reported consulting with other accountants before making decisions (Gibbins and Emby 1985).

Understanding the consultation process and practices of auditors is critical because consultations among auditors are a key quality control mechanism of the firms designed to guard against poor judgments (Bedard et al. 2008). Research in psychology provides empirical support for the assertion that consulting with or seeking advice from others can improve the quality of decisions made and the confidence in these decisions (Sniezek and Buckley 1995; Harvey et al. 2000; Yaniv and Kleinberger 2000; Yaniv 2004; Yaniv and Milyavsky 2007).⁸ Recent studies in accounting also demonstrate the impact advice can have on auditors' final judgments (e.g., Shankar and Ng 2008; Ng and

⁸ The increase in confidence may in some cases be misguided rather than a true indication of an increase in the quality of the decision (e.g., Sprinkle and Tubbs 1998; Heath and Gonzalez 1995). Additionally, this increased sense of confidence can be both internal confidence of the decision maker and/or external confidence of others in the decision (Kennedy et al. 1997).

Shankar 2010; Kadous et al. 2010). These studies confirm findings in psychology that suggest factors such as the advisor's expertise, trust in the advisor, and familiarity with the advisor determine whether and to what extent advice is used (see Bonaccio and Dalal 2006 for a review).

While the literature in both psychology and accounting identify factors that impact advice use and demonstrate the importance of advice on judgment outcomes, little is known about *when* auditors informally seek advice, *who* they go to for the advice, and *how* they communicate the issue to their chosen advisor. This study attempts to fill this gap in the literature.

III. HYPOTHESES DEVELOPMENT

No specific line of literature examines all of the important decision points in the consultation process used in auditing. However, researchers across many disciplines (e.g., accounting, psychology, education, organizational behavior, information science) have explored different types of interpersonal information-seeking behaviors (e.g., advice-seeking, feedback-seeking, help-seeking, knowledge sourcing). Although each of these behaviors differs in the type of information being sought, many of the behaviors share common antecedents. Given the extensive nature of the related literature, I rely on it to develop a general framework which I then apply to auditor consultations to organize my review of the relevant literature and develop my hypotheses (see Figure 1).

As depicted in Figure 1, social and instrumental motives facilitate the various aspects of advice-seeking behavior by impacting the perceived costs and value of seeking advice. The key decisions that occur in the advice-seeking process include the decision of whether or not to seek advice, the decisions related to how to seek the advice (e.g., tactic, source, timing), and the decision of whether or how to use the advice. In this paper, I am primarily concerned with understanding how changes in social costs (related to social motives) and the potential for an internal quality review (related to instrumental motives)

impact: (1) whether advice is sought, (2) the decisions regarding the source to consult, and (3) the information provided to that source.⁹

Whether to Seek Advice

The primary assertion of my study is that the presence and salience of social and instrumental motives influence whether or not advice is informally sought by auditors. Social motives involve the desire to protect or enhance one's image and/or ego, and instrumental motives involve the desire to obtain useful information, justify decisions, enhance accuracy or performance, and develop competency (Morrison and Bies 1991; Anseel et al. 2007).

Social Motives – Social Costs

Auditors are motivated to protect their image and their ego. An auditor's image or reputation in the firm is exceedingly important in determining their success with the firm and the opportunities they are offered. An auditor who is perceived as not performing at an acceptable level might experience decreased compensation in the form of lower bonuses, lower quality client opportunities, slowed progression in the promotion process, and given the up or out nature of public accounting—job loss (e.g., Kaplan and Reckers 1993; Stefaniak and Robertson 2010).¹⁰ These highly salient negative professional repercussions can cause auditors to become self-protective and work hard to manage their image (Stefaniak and Robertson 2010; Sweeney and Pierce 2006). A long tradition in

⁹ Although the variables of interest likely influence the use of advice, I do not focus on how participants' use of advice varies in this study. Additionally, although many factors may influence advice-seeking behavior, interviews with practicing auditors revealed that social costs were important determinants in advice-seeking decisions.

¹⁰ Existing research has also shown that prior impressions of subordinates can impact how positively their work is evaluated on the current task and the intensity of the review a preparer must endure (Tan and Jamal 2001; Gibbins and Trotman 2002). The results of these studies suggest that the preparer auditor's reputation may affect audit quality by altering reviewer behaviors. In the present study, the impact of individual auditors' reputations on their behaviors is considered exclusively from a preparer auditor standpoint.

psychology suggests that people are also motivated to defend and protect their egos (Baumeister 1999). This leads to a preference for positive and even overly optimistic information about the self that helps the individual maintain a favorable self-view (Fiske 2010). Accordingly, people tend to avoid information that damages their self-image (Ashford and Cummings 1983; Morrison and Cummings 1992; Baumeister 1999).

Social costs bring about threats to the image/reputation and the ego, often due to embarrassment caused by disclosure of unfavorable information to another party. Due to the interpersonal nature of seeking help, that very act can entail social costs (Lee 2002). When auditors seek advice, they take the risk that the person with whom they are consulting will question their competence and skills, which can be personally embarrassing from an ego-related view and may also undermine their image in the firm. That is, seeking another's help may involve admitting dependence and inferiority to that person, and a lack of competence (Lee 1997, Lee 2002). Thus, when auditors consult with other auditors in practice, they face serious potential social costs.¹¹

The level of social costs incurred when seeking advice varies depending on the situation and on the advisor. Social costs are considered higher in situations where the seeker believes the request for advice will be perceived negatively by the advisor. For example, as auditors gain experience, they are expected to perform their responsibilities with increased levels of independence and competence and are evaluated based on such expectations. If an auditor is expected to know (or even believes they should know) or be able to find the answer to an issue on their own, the social costs of seeking advice may be

¹¹ This study focuses on the social costs associated with seeking advice. Other potential costs of seeking advice include time, effort, hours the advice giver may charge to the client, and the potential to receive low quality advice. These non-social costs, including the quality of the advice will be held constant in this study.

high because the auditor is risking that the advisor may conclude that they do not have the expected knowledge and/or ability. Situations such as this with high social costs can threaten both the auditor's image and their ego.

Extant literature in organizational behavior suggests that the degree of social costs faced by the seeker may determine whether or not advice is sought. The pressure to appear knowledgeable can heighten the sensitivity of individuals in such a way that they avoid situations that make them feel unintelligent or appear dependent on others (Lee 2002). Several studies show that in high social cost situations, individuals avoid seeking the help they need (e.g., Lee 1997, 2002; Ashford and Northcraft 1992; Northcraft and Ashford 1990; Tuckey et al. 2002). This suggests that in the face of higher social costs, auditors may also avoid seeking the advice they need from other auditors, even when that advice is easily accessible. Thus, I hypothesize:

H1: Auditors facing higher social costs will be less likely to seek advice than auditors facing lower social costs.

The Moderating Influence of Instrumental Motives – Internal Quality Reviews

While social costs are likely to impact whether auditors seek advice, they are not the only threats auditors must manage. Ultimately, performance matters. If an auditor's work is scrutinized and is not considered high quality, their attempt to handle the situation or complete the work on their own will be viewed unfavorably. This emphasis on performance evokes instrumental motives in the auditor to obtain information, improve performance, and increase competency. In fact, studies have shown that information-seeking behaviors are influenced by the importance of the task or knowledge being sought (Burgess 2005; Morrison and Vancouver 2000; Xu, Tan and Yan 2006;

Tuttle and Vandervelde 2007) and the perceived need for the information (Levy et al. 1995; Cross and Borgatti 2000).¹²

Although virtually unexamined in the accounting literature, internal quality reviews are one structural quality control mechanism used in firms to increase instrumental motivations with the goal of improving auditor judgments. In the post-SOX environment, quality review inspections are both internal (internal quality review) and external (PCAOB inspections) mechanisms used to promote audit quality (Grunfield 2004; PCAOB 2011). These reviews have increased the emphasis on performance and are receiving growing attention in practice (due to both their prevalence and importance in driving audit quality). In response to the current regulatory environment, firms have ramped up their internal quality monitoring, which has resulted in an increasing number of within-firm engagement reviews. These reviews are ex-post and are intended to provide an extra level of scrutiny over auditors' work, beyond the audit review process, to help ensure both diligence and quality in auditors' work products (Grunfield 2004; PCAOB 2011). An internal quality review typically involves a team of managers or senior managers in the firm (but not on the engagement) performing detailed reviews/evaluations of the completed audit work to highlight issues or trends that need attention (Audit Quality Review Board 2007; Stefaniak 2009). Although firms avoid

¹² In accounting, studies of both formal and informal consultations demonstrate that the propensity to consult is positively associated with factors that increase instrumental motivations to obtain information and improve performance. For example, formal consultations with experts are positively associated with the level of fraud risk (Hammersley et al. 2011; Asare and Wright 2004; Gold et al. 2012), explicit requirements to consult (Gold et al. 2012), and deadline pressure (Gold et al. 2012). In informal settings, Tuttle and Vandervelde (2007) examine posts to an audit listserv and find that the underlying complexity, client attention, importance, and risk associated with the posting influences the amount of assistance auditors seek on the listserv. Similarly, Davis and Tuttle (2012) study management accountants' behaviors when encountering software exceptions. They find help-seeking behavior is influenced by confidence in their ability to successfully resolve the issue, or the need for information.

publishing lists of which engagements will be chosen for an internal quality review, a survey of 125 partners indicates that the majority of them anticipate whether or not their audit(s) will be selected (Stefaniak and Houston 2009).

If an internal quality review is likely to occur, the auditors' work on that engagement is more likely to undergo heavy scrutiny by the internal quality reviewer. As a result, the normal review process will also likely increase in intensity because the results of internal quality reviews are often tied to the compensation and evaluation of managers, senior managers, and partners. Adding more intense within-engagement scrutiny and an additional layer of review increases the chance of the discovery of poor judgment and the likelihood of negative consequences for the individual. This increases the importance of and the need for the best information.¹³ With an increase in importance and need, the value of seeking advice is highlighted, increasing instrumental motives to seek the advice (Ashford & Cummings 1983; Morrison 2002).

As a result, I predict that auditors anticipating an internal quality review will increase instrumental motivation, causing the auditor to shift weight towards the benefits of seeking the advice. As predicted in H1, without the anticipation of an internal quality review, auditors facing higher social costs are expected to shift weight towards the costs of seeking advice, motivating them to avoid seeking help. When an internal quality review is anticipated and auditors focus more on the benefits of seeking advice, social motives are expected to affect advice-seeking less. This means that the anticipation of an

¹³ This is consistent with the accountability literature. The added level of scrutiny may cause auditors to feel more accountable for their work and strengthen the need to justify their decisions and/or thought processes (Kennedy 1993; Koonce et al. 1995). The accountability literature generally demonstrates that auditors experience increased accuracy motivations and increase their level of effort when they feel accountable (see Bagley 2010 for a review).

internal quality review is expected to mitigate, at least in part, the negative effects of social costs. Thus, because auditors facing lower social costs are already expected to seek advice more often (H1), those facing higher social costs will be impacted more by the threat of an internal quality review. Refer to Figure 2 for a graphical illustration of the prediction. Formally, I hypothesize:

H2: The effects of social costs on the likelihood of seeking advice will be moderated by the perceived likelihood that an internal quality review will occur. Specifically, the effect of social costs will be smaller (larger) when and internal quality review is highly (not) likely.

From Whom to Seek Advice

Just as social and instrumental motives influence the decision of whether or not to seek advice, they also likely influence who one chooses to seek advice from (assuming one chooses to seek advice). An auditor is only able to consult with individuals who are accessible to them, and there are costs and benefits associated with different potential advisors. Although theory applies to auditors at all experience levels, the present study examines senior auditors' consultation practices. Two common sources of advice for seniors are the manager on the engagement and other auditors in their peer class. The costs associated with seeking advice from these two sources differ as do the perceived benefits. Of particular interest to this study is the conflict between the social costs created by the power-distance differences when comparing the potential sources (i.e., the manager/supervisor and a peer level auditor) and the assumed accuracy benefits associated with each source.¹⁴

¹⁴ The differences in accuracy benefits are assumed as the manager should have more knowledge and expertise than a peer due to their experience. However it is possible that the peer may give equally accurate advice.

Social Motives – Social Costs

Social motives likely influence which costs/benefits are most salient in consulting the manager on the engagement versus a peer. Many organizational behavior studies have found that the expertise and the quality of the knowledge received from the source are important drivers in choosing a source as individuals wish to obtain the most accurate and useful information possible (e.g., Vancouver and Morrison 1995; Cross and Borgatti 2000; Morrison and Vancouver 2000; Borgatti and Cross 2003). Auditors surveyed by Danos et al. (1989) also report seeking advice in a hierarchical nature. Yet when faced with conflicting concerns, the usefulness and accuracy of the information is not always worth the costs of asking for the information (Vancouver and Morrison 1995), especially when individuals feel compelled to manage their image with powerful others (Morrison and Bies 1991).

As the power-distance between the advisee and the advisor increases, so do the potential social costs (Lee 2002). Managers hold a higher status than the preparer auditor and control the evaluation the auditor receives at the end of the engagement. Image concerns are more salient when the seeker is dependent on the source for future evaluations, opportunities, and rewards (Morrison and Bies 1991; Morrison 2002). As a result, the characteristics of the manager are important in determining the level of perceived social costs involved in consulting with them. If the auditor chooses to seek advice, but feels pressure to either manage their image and/or preserve their ego, then they are more likely to seek advice from an equal-status peer whose opinion is less imperative to their future success with the firm (Lee 1997). Seeking advice from a peer involves a potential tradeoff between the quality of the advice received and the social cost

incurred to receive it. Thus, even though auditors would prefer to consult with the manager to get more useful and accurate advice, they may be less likely to go to the manager when the social costs of doing so are high. In other words, the results of studies cited in other domains above suggest that auditors may not always consult with the person they believe has the most expertise or provides the highest quality advice because of the high social costs involved. Thus, I hypothesize:

H3: Auditors facing higher social costs will be less likely to seek advice from the manager than auditors facing lower social costs.

The Moderating Influence of Instrumental Motives – Internal quality reviews

Instrumental motives can also influence the source from which an individual seeks the desired information (Anseel et al. 2007). As noted previously, the anticipation of a quality review is likely to increase the auditor's motivation to make accurate and defensible judgments. This, in turn, is expected to increase the importance of source expertise when choosing an advisor. As the expertise or credibility of the source increases, the instrumental value of their input also increases, which leads individuals to seek advice from that source more often (Fedor et al. 1992; Levy et al. 2002; Vancouver and Morrison 1995). Thus, if an auditor has strong instrumental motivation, then he is more likely to turn to a supervisor for guidance, whereas an auditor with lower instrumental motivation may be willing to ask a less socially costly peer for advice (Vancouver and Morrison 1995).

Taken together, the discussions of social and instrumental motives driving the decision of source suggest an interaction between the level of social costs encountered and the likelihood that an internal quality review is conducted. In the absence of an internal quality review, source selection is expected to shift from the manager to a peer as

social motives increase (H3) and auditors focus on the costs of consulting the manager. When an internal quality review is anticipated, however, instrumental motives are expected to mitigate the negative effects of social costs by shifting auditors' focus to the benefits of seeking advice from the manager. Thus, because auditors facing lower social costs are already expected to consult the manager more often (H3), those facing higher social costs will be impacted more by the threat of an internal quality review. Refer to Figure 3 for a graphical illustration of the prediction. Formally, I hypothesize:

H4: The effects of social costs on the likelihood of consulting the manager (peer) will be moderated by the perceived likelihood that an internal quality review will occur. Specifically, the effect of social costs will be smaller (larger) when and internal quality review is highly (not) likely.

Tactics

Once the auditor chooses their advisor, they must provide information about the issue to the advisor. When an advisor has limited information about the issue in question, they often rely on the information provided by the advisee as the basis for the recommendations they make. In audit settings, this is often the case for both formal and informal consultations. The auditor seeking advice has the most control over the extent and manner in which information is made available to the advisor. Receiving all relevant information regarding the issue, however, is essential for the advisor to provide an informed recommendation (Jonas and Frey 2003). Thus, the information provided to the advisor is a key determinant of the quality of the advice received and the ultimate outcome or final decision (Bonaccio and Dalal 2006).

In light of the potential social costs of seeking advice, an auditor may minimize the appearance of incompetence by framing information in a way that demonstrates an ability to provide thoughtful solutions to problems encountered. According to Jellison

and Arkin's (1997) work on self-presentation theory, arguing for a particular position "tends to convey the impression that they are knowledgeable, authoritative, expert, and well-informed." Thus, regardless of the advisee's actual confidence in one option over another, presenting the advisor with facts supporting a position (i.e., persuasive facts) rather than presenting facts absent a clear conclusion may increase the advisor's perception of advisee competence, reducing image threats. It may also increase the chances of consensus when the position is compelling and the advisor is unaware of relevant facts that may refute the position presented. This likelihood of agreement is also important when considering social motives because agreement bolsters the ego and can also stimulate liking between the parties, which enhances the relationship and further reduces image threats (Fiske 2010).

Because the persuasive communication of facts can boost the advisor's confidence in, and the perceived competence of the auditor, I expect that auditors are more likely to present a persuasive set of facts to their advisor when perceived social costs are high.¹⁵

Formally, I predict:

H5: Auditors are more (less) likely to present persuasive facts when social costs are high (low).

The anticipation of an internal quality review, however, may either increase or decrease the persuasiveness of auditors' communications to their advisors. Auditors seeking the most informed advice should be more likely to provide all facts about the case to their advisor, not just facts supporting the conclusion they have drawn. Because

¹⁵ Though the literature suggests auditors will be more persuasive when faced with high social costs, there is some support for alternative reactions. If an individual wants to obtain the most informed advice possible, he may present all available facts in order to allow the advisor to determine which facts are pertinent and increase the quality of the advice received (Jonas and Frey 2003). It is also possible that the auditor could avoid picking a position for fear that the advisor will not agree.

internal quality reviews are a deep dive into the audit file to see how the decisions were made, the potential benefits of presenting persuasive facts to the advisor (e.g., increased perceptions of competence) may not be realized under the increased scrutiny of an internal quality review. In addition, like PCAOB inspections, internal quality reviews call for the auditor to specifically consider both confirming and disconfirming evidence. As such, the anticipation of an internal quality review should decrease the persuasiveness of the auditor's communications when they are otherwise inclined to be overly persuasive due to high social costs.

However, the ability to justify your process and decisions becomes an important part in defending against quality review comments, and requiring auditors to document their judgments prompts them to choose their words carefully in order to achieve their objectives (Rich et al. 1997; Piercey 2009). According to Arkin (1981, pg. 315), "a claim to knowledgeability concerning some matter may be undermined by expression of a cautious or neutral attitude or by an inability to defend one's judgment persuasively." As such, I predict that auditors will focus more on defending their decisions when facing low social costs and an impending quality review, causing auditors to provide their advisor with more persuasive evidence than they would when an internal quality review is less likely to occur. Thus, I predict that the anticipation of an internal quality review will decrease the persuasiveness of auditors facing high social costs, but increase the persuasiveness of auditors facing low social costs. Formally, I hypothesize:

H6: An impending internal quality review will make auditors facing high (low) social costs communicate a less (more) persuasive message.

IV. METHODOLOGY

Design

In order to examine how social costs and the anticipation of an internal quality review impact auditors' advice-seeking behavior, I conducted a 2 x 2 between-subjects experiment that varied the level of social costs (high, low) and the likelihood that the engagement would be selected for an internal quality review (highly likely, not likely). Social costs were manipulated through the description of the audit environment. The description provided to participants was as follows: "You had limited interactions with the audit team manager on this engagement prior to Nelcore. He is considered to be highly competent, and is known for making his team members feel inferior and incompetent [valued and competent] when they ask him questions. He will be writing your evaluation." The likelihood of the engagement being selected for an internal quality review was manipulated as follows: "The team feels that Nelcore, Inc. is highly likely [NOT likely] to be selected this year for an internal quality review."

The dependent variables of interest are the likelihood of seeking advice (H1 and H2), the type of advisor chosen (H3 and H4), and the persuasiveness of the message communicated to the advisor (H5 and H6). The likelihood of seeking advice was measured using an 11-point scale anchored at "Very Unlikely" and "Very Likely." The type of advisor chosen was the participants' indication as to whether they were more

likely to seek advice from the manager on the engagement or from a peer that was previously a member of the Nelcore engagement team.¹⁶ This was measured using a scale containing the following points, “Definitely a peer who used to be on Nelcore,” “Probably a peer who used to be on Nelcore,” “Equally likely to go to each,” “Probably the manager on the engagement,” and “Definitely the manager on the engagement.” The persuasiveness of the message communicated to the advisor was assessed using three measures: (1) the total number of facts presented to the advisor, (2) the ratio of facts that support the participant’s preliminary decision to those that oppose that decision relative to the total number of facts, and (3) a subjective assessment of the overall persuasiveness of the message delivered to the advisor.

Participants

One hundred eighteen practicing audit seniors from the Big 4 firms participated in the study. One of the participating firms declined to provide certain demographic information, thus the following information excludes this firm.¹⁷ Participants had an average (median) of 4.0 (3.9) years experience, with experience ranging from 2.6 to 8.5 years. Although I expect auditors at all levels to be influenced by social costs and internal quality reviews, participants of this experience range were chosen because I anticipated that both social motivations and instrumental motivations are very strong for this group. Of those reporting demographic information, 56 percent were male, and 44 percent were female. Ninety percent of participants had performed testing over inventory accounts

¹⁶ During a pretest, participants were also presented with the option of seeking advice from their firm-assigned “coach” or mentor or a technical specialist. However, as no participants selected these choices in the pretest, these options were not presented to the full sample of participants.

¹⁷ Also, note that where theory and/or extant literature suggest that these demographic variables are important to include in the analysis, that firm is excluded from the analysis, although the same conclusions are ultimately reached with all four firms.

before, and 97 percent had participated in determining which tests to perform on their engagements. Taken together, this information suggests that the participants were well suited to complete the task included in the experimental materials.

Task

Participants were provided with instructions and asked to assume the role of lead senior on the 12/31 year-end Nelcore, Inc. audit engagement.¹⁸ They received information based on an actual audit issue. The issue was described as follows:

“The Nelcore team has completed fieldwork and you are wrapping up your review of the workpapers from the office. Your manager on the engagement is balancing multiple engagements and is onsite at another client (not in the office with the Nelcore team). In discussions with the manager, you have noted that your review is nearly complete and you don’t expect any issues in the final stage.

After the meeting with the manager, you identify an inconsistency in the audit workpapers. The inventory listing used to select locations for inventory observation does not tie to the inventory balance. As a result, approximately \$1.9 million of inventory was located in another warehouse recently purchased by the company and was not directly observed by your staff on the balance sheet date.”

Additional general information about the engagement (e.g., materiality threshold of \$8.5 million, frequency of audit adjustments, assessments of management, etc.) and information about inventory (e.g., the total balance of \$10.0 million, testing performed, controls reliance, etc.) were both provided. The participant’s ultimate task was to determine whether additional procedures were necessary or whether sufficient procedures

¹⁸ The issue was based on a real audit issue that was described during a focus group conducted with a small engagement team consisting of a staff, senior, and manager. Then the specific case facts were altered with the assistance of a partner, two senior managers, and two managers from two of the participating firms to ensure that it is an issue they would want to know about as the manager, but one that is not so salient that it would unquestionably be detected in the review process. The materials were refined using information gathered during a pretest with 19 practicing auditors (largely from the target population although some pretest participants were more experienced) and five PhD students that were former auditors.

had been performed over inventory. In anticipation of this decision, they were asked the likelihood that they would seek advice on the issue from another auditor (dependent variable for H1 and H2) and asked to provide their preliminary decision on the issue.

Participants then chose an advisor (dependent variable for H3 and H4). They were given the opportunity to obtain advice from one of two potential advisors: 1) the manager on the engagement, or 2) a peer who used to be on Nelcore. In order to obtain the advice, participants were asked to construct an email message to provide to the advisor (dependent variable for H5 and H6), explaining the situation and requesting the advice.¹⁹ The participants were also asked manipulation check questions, the difficulty of the task, perceptions of internal quality reviews, and demographic questions.

¹⁹ Although I am only concerned with auditor behavior prior to receiving the recommendation from the advisor in this paper, I provide participants with advice and have them make a final decision (following my dependent measures, but before the manipulation checks and demographic questions) to allow closure for them on the task. This was suggested by multiple firm representatives. The actual advice provided, which suggested that additional procedures should be performed and was developed with the help of practicing auditors, is held constant regardless of the advisor the participant chooses and regardless of the contents of the message submitted to the advisor. After receiving the information from their advisor, participants are instructed to reach a final decision.

V. RESULTS

Manipulation Checks

Participants responded to a manipulation check, structured as a multiple choice question, for each of the independent variables. For the social cost manipulation check, participants were provided with two choices, (1) the engagement manager is known for making his team members feel inferior and incompetent when they ask him questions, and (2) the engagement manager is known for making his team members feel valued and competent when they ask him questions. For the social cost manipulation, six individuals failed the manipulation check and one did not provide an answer to the question. Thus, 94% of participants correctly answered the manipulation check question. Related to this manipulation, participants were asked to what extent they agreed or disagreed with six statements that were intended to assess the amount of social costs they felt were associated with both the manager and the peer. These statements were adapted using Lee (2002) as a guide and represent dimensions of social costs related to both the ego and reputation. Each statement began with the phrase, "If I ask the manager [peer] on Nelcore for help," and ended with one of the following phrases, "I will feel embarrassed," "he may think I'm NOT competent," and "he may hold it against me." As expected, there were no differences between groups in participants' assessments of the social costs associated with the peer (all p values $> .30$), but those in the high social cost conditions assessed the social costs associated with the manager to be higher than those in the low social cost conditions for all three measures: embarrassment, competence, and

reputation, (all p values < .001). This suggests that the manipulation was successful in inducing a feeling that there are higher social costs involved in the high social cost conditions. Excluding those that failed the manipulation check does not alter the significance of the results or inferences drawn from the analyses, therefore, all participants are included in the analyses.

For the internal quality review manipulation check, participants were provided with two choices, (1) the team feels that Nelcore is highly likely to be selected this year for an internal quality review, and (2) the team feels that Nelcore is NOT likely to be selected this year for an internal quality review. For the internal quality review manipulation, two individuals failed the manipulation check. Thus, 98% of participants correctly answered the manipulation check question. Excluding those that failed the manipulation check does not alter the significance of the results or inferences drawn from the analyses, therefore, all participants are included in the analyses that follow.

Tests of Hypothesis 1 and Hypothesis 2

Hypothesis 1 and Hypothesis 2 make predictions regarding the likelihood that auditors will seek advice when faced with an audit issue. As the results of studies in organizational behavior indicate certain demographic variables may be significant in determining the likelihood of seeking advice, the analyses to test these hypotheses are performed using all auditors that provided the necessary demographic information. Table 1 Panels A provides information on the likelihood that the participants would seek advice

on the issue described in the task materials. The information includes the means used to test the hypotheses, standard deviations, and number of participants in each cell.²⁰

Hypothesis 1 predicts that auditors facing high social costs will seek advice less than auditors facing low social costs. The mean likelihood of seeking advice in the low social cost condition is 9.44, and it is 8.75 in the high social cost condition. In Table 1 Panel B, ANCOVA results demonstrate that the level of social costs are significant predictors of auditors' likelihood of seeking advice (F-statistic = 9.22, p-value = .002, one-tailed). Thus, I find support for Hypothesis 1, and conclude that auditors are less likely to seek advice from another auditor when social costs of seeking advice are high.

As expected, the results of the analysis also confirm the importance of certain demographic variables, including gender, the participant's self-assessed performance rank relative to their peers, and prior inspection experience with the PCAOB.²¹ Including these covariates in the ANCOVA significantly improves the model and the amount of variance explained.²²

Hypothesis 2 predicts that the effects of social costs on the likelihood of seeking advice will be moderated by the perceived likelihood that an internal quality review will occur. Specifically, it predicts that the effect of social costs will be smaller (larger) when

²⁰ Of the 94 participants, 45 (48%) indicated that they were very likely to seek advice (e.g., they answered a 10 on the scale of how likely they were to seek advice from another auditor). Of these 45 participants, 12 were in the low social cost/low internal quality review condition, 15 were in the low social cost/high internal quality review condition, 12 were in the high social cost/high internal quality review condition, and only 6 were in the high social cost/low internal quality review condition.

²¹ I also find that the audit firm is a significant covariate, although the results of the analysis and inferences drawn do not change based on whether or not firm is included. This is not unexpected as each firm has a unique culture and quality control system.

²² It is important to note that responses to the dependent variables did not differ between the firm that declined to provide demographic information and the others. As such, it is reasonable to assume that the results of the analyses presented using the limited or representative sample would be similar if the additional information were available.

and internal quality review is highly (not) likely. This prediction, coupled with the main effect prediction of Hypothesis 1, suggests a specific pattern of cell means. Visual inspection of the graph of cell means depicted in Figure 2 demonstrates the pattern predicted. As such, I use a contrast as the primary test of the hypothesis (Buckless and Ravenscroft 1990). To test whether social costs have an effect on the likelihood of seeking advice (H1), but have a smaller effect when an internal quality review is highly likely (H2), I use a contrast code of -5, 1, 2, 2 for the high social cost/low internal quality review, high social cost/high internal quality review, and the remaining conditions, respectively.

Table 1 Panel C shows tests of the pattern of cell means predicted, and the contrast is significant (t-statistic = 2.415, p-value = 0.011, one-tailed). Thus, I find support for Hypothesis 2 and conclude that although auditors are less likely to seek advice when social costs are high, the threat of an internal quality review helps increase the likelihood that they will seek advice.²³ Consequently, auditors are least likely to seek advice when social costs are high and an impending quality review is unlikely, and they are most likely to seek advice when social costs are low and an impending quality review is highly likely.

Tests of Hypothesis 3 and Hypothesis 4

Hypothesis 3 and Hypothesis 4 make predictions regarding the advisor that auditors will choose when seeking advice on an audit issue. Table 2 Panel A provides information on the likelihood that the participants would consult with the manager, as

²³ A rank ANCOVA and planned contrast were performed on the full sample to correct for violations in normality and homogeneity assumptions. Results of this analysis (untabulated) demonstrate the pattern predicted, providing further support for Hypotheses 1 and 2.

opposed to the peer, on the issue described in the task materials. The information includes the means used to test the hypotheses, standard deviations, and number of participants in each cell.²⁴

Hypothesis 3 predicts that auditors facing high social costs will be less likely to seek advice from the manager than auditors facing low social costs. The mean likelihood of consulting the manager in the low social cost condition was 9.83 and it was 8.63 in the high social cost condition. In Table 2 Panel B, ANCOVA results demonstrate that the level of social costs are significant predictors of auditors' likelihood of consulting the manager (F-statistic = 5.71, p-value = .010, one-tailed).²⁵ These results provide support for Hypothesis 3 and indicate that even when auditors do seek advice on an issue, they are less likely to go to the manager when social costs are high.

As expected, the results of the analysis confirm the importance of certain demographic variables, including gender and experience.²⁶ Including these covariates in the ANCOVA significantly improves the model and the amount of variance explained.²⁷

Hypothesis 4 predicts the effects of social costs on the likelihood of consulting the manager (peer) will be moderated by the perceived likelihood that an internal quality

²⁴ Of the 118 participants that took part in the study, 13 (11%) indicated they were more likely to consult with the peer rather than the manager. Of these 13 participants, eight were in the high social cost/low internal quality review condition, four were in the high social cost/high internal quality review condition, one was in the low social cost/low internal quality review, and none were in the low social cost/high internal quality review condition.

²⁵ I include in the analysis the likelihood that auditors would seek advice and their confidence in making the decision about the inventory issue, as these were found to be significant predictors of the likelihood of consulting with the manager. When these factors are not included, the internal quality review factor becomes more significant (p-value = .053); otherwise, the results and inferences are unchanged.

²⁶ I also include the likelihood of seeking advice as a covariate as participants were asked which source they would select as an advisor regardless of the likelihood they would seek advice. Results suggest that those who were less likely to seek advice were also less likely to choose to consult the manager.

²⁷ It is important to note that responses to the dependent variables did not differ between the firm that declined to provide demographic information and the others. As such, it is reasonable to assume that the results of the analyses presented using the limited or representative sample would be similar in the full sample (all four firms) if the additional information were available.

review will occur. Specifically, it predicts that the effect of social costs will be smaller (larger) when an internal quality review is highly (not) likely. This prediction, coupled with the main effect prediction of Hypothesis 3, suggests a specific pattern of cell means. Visual inspection of the graph of cell means depicted in Figure 3, coupled with the insignificant interaction variable in the ANCOVA (F-statistic = .019, p-value = .445, one-tailed) model indicates that the pattern predicted is not present. Instead, I find a main effect for internal quality review. The mean likelihood of consulting the manager when an internal quality review is highly likely to occur (9.85) is statistically higher than when an internal quality review was not likely to occur (8.61) (F-statistic = 6.56, p-value = .006, one-tailed).²⁸ Thus, regardless of social costs, the threat of an internal quality review helps increase the likelihood that they will consult the manager. An important implication of these findings is that even when auditors choose to get help, they may not choose the most appropriate advisor when perceived social costs associated with seeking the advice are high. However, the anticipation of an internal quality review can increase the likelihood of consulting the manager regardless of social costs. This demonstrates the importance of the audit environment on auditor's decisions to seek help and provides insight into one reason auditors may spin their wheels instead of getting help.

Tests of Hypothesis 5 and Hypothesis 6

Hypothesis 5 and Hypothesis 6 make predictions regarding the communications the auditor makes to their chosen advisor. As there is no reason to believe based on the results of prior studies that the demographic variables will be significant in determining

²⁸ A logistic regression was performed (untabulated) dichotomizing responses to dependent measure based on whether they were more likely to consult the manager or peer. This alternative test achieves similar significance and supports all inferences drawn from the ANCOVA.

the persuasiveness of communications, the analyses to test these hypotheses are performed using all auditors and additional analyses confirm that no demographic variables are significant covariates. In order to analyze the text responses used to test these hypotheses, two procedures were performed. The first procedure was to separate the facts contained in each message into those that supported the participant's position of whether or not to perform procedures and those that supported alternatives to the participant's position on the matter. From this procedure, the total number of facts (TOTAL FACTS) and the ratio of supporting to non-supporting facts relative to the total (TYPE OF FACTS) were determined. The second procedure was a subjective assessment of the overall persuasiveness of the message communicated to the advisor based on how compelling or convincing it would be as a result of the facts presented and arguments made (CONVINCING). This procedure was performed by the author and also by a practitioner that was a practicing senior manager in one of the participating firms.²⁹ A file containing all of the text responses assigned a unique identifier and in random order was used for this assessment in order to ensure objectivity. As the inter-rater correlation was .886 (p-value < .001), the assessments are considered highly similar between coders and the measure of CONVINCING is an average of the two assessments.

The average (median) length of the text responses is 160 (146) words with the shortest message containing 31 words and the longest message containing 339 words. Word count does not vary by experimental condition (all p-values > .500). In addition, although the word count for those consulting with a peer is slightly higher than those consulting with the manager (average word count was 183 versus 157, respectively), this

²⁹ This senior manager did not participate in the actual experiment.

difference is not statistically significant (f-statistic = 1.520; p-value = .220, two-tailed). Table 3 Panels A, B, and C provide descriptive information on the three measures used to assess the persuasiveness of the communications from the participants to their chosen advisors (i.e., TOTAL FACTS, TYPE OF FACTS, and CONVINCING), including the means used to test the hypotheses, standard deviations, and number of participants in each cell.³⁰ On average, participants provide 6.63 TOTAL FACTS, with a ratio of .310 TYPE OF FACTS (calculated as supporting facts minus non-supporting facts, divided by total facts), and a rating of 3.92 out of 10 for how CONVINCING the message is.

Hypothesis 5 predicts that auditors are more (less) likely to communicate a persuasive message when social costs are high (low). Table 3 Panels D, E, and F provide ANCOVA results for each of the three measures. Although the average number of TOTAL FACTS in the high (low) social cost conditions are in the direction predicted at 6.98 and 6.28, respectively, this difference is not statistically significant (F-statistic = 1.23, p-value = .135, one-tailed). Similar results are obtained for the measure of the ratio of TYPE OF FACTS (supporting versus non-supporting). The average ratio in the high (low) social cost condition are in the direction predicted at .35 and .27, respectively, but this difference is not statistically significant (F-statistic = 1.12, p-value = .146, one-tailed).³¹ Analysis of the messages communicated to advisors from a linguistic

³⁰ The extant literature has not found any of the demographic variables measured in this study to be significant predictors of persuasion; and results of analyses including the three firms that provide all information confirm such variables are not significant predictors of persuasion. As such, all four firms were included in these analyses.

³¹ I include in the analysis the format that the experimental materials were completed in, either online or on paper, for the analyses of TOTAL FACTS and TYPE OF FACTS because participants were expected to include more facts when they were able to copy and paste case information as opposed to hand write the information. As expected, this covariate was at least marginally significant in the expected direction. There was no predicted relationship between format and persuasiveness, and it was not found to be a

perspective, on the other hand, shows that auditors present messages that are significantly more convincing when social costs are high than when social costs are low. Results of the ANCOVA in Table 3 Panel F demonstrate a significant main effect of social costs as described (F-statistic = 3.97, p-value = .024, one-tailed). These results provide support for partial Hypothesis 5 and suggest that even when auditors do seek advice on an issue, social costs prompt them to argue more persuasively for the position they take on the issue. Interestingly, the auditors alter the way they deliver the message more so than the type and amount of facts they provide. An important implication of these findings is that even when auditors choose to get help and choose the most appropriate advisor, they may present unbalanced and persuasive facts to the advisor when perceived social costs associated with seeking the advice are high.

Hypothesis 6 predicts the effects of social costs on the persuasiveness of participants' communications to their chosen advisor will be moderated by the perceived likelihood that an internal quality review will occur. Specifically, it predicts that an impending internal quality review will make auditors facing high (low) social costs communicate a less (more) persuasive message. This prediction, coupled with the main effect prediction of Hypothesis 5, suggests a disordinal interaction. Visual inspection of the cell means depicted in Figures 4a, 4b, and 4c, as well as ANCOVA results presented in Table 3 Panels D, E, and F, confirm the presence of a disordinal interaction for each of the persuasiveness measures.

When it comes to the total number of facts presented, in situations where there are lower social costs, the anticipation of an internal quality review increases the number of

significant covariate. Confidence was also included as a covariate in the CONVINCING analysis, as people that were more confident were marginally more likely to be more persuasive.

facts provided; whereas, the opposite is true in higher social cost conditions. In higher social cost conditions, the anticipation of an internal quality review decreases the number of facts provided. To understand how this relates to the persuasiveness of the message, the type of facts being provided and the linguistic style or arguments also must be considered. The measure of the ratio of supporting to non-supporting facts considers the type of facts that are shared with the advisor. The higher the ratio, the more persuasive the message is towards the participant's chosen position. The lower the ratio, the more balanced the set of facts is. Results of the ANCOVA in Table 3 Panel E suggest that auditors provide a marginally more balanced set of facts when an internal quality review is highly likely. They also suggest that this is due primarily to participants in the low social cost condition. While participants in the high social cost condition tend to be highly persuasive, regardless of the likelihood of an internal quality review, auditors in the low social cost conditions present significantly more balanced facts when an internal quality review is highly likely. Consistent with the prediction of Hypothesis 6, this means that the anticipation of an internal quality review promotes more effective consultations when auditors are in lower social cost conditions; however, it does not decrease the persuasiveness of auditors in higher social cost conditions.

Further analysis of the types of facts presented (untabulated) suggests that the number of supporting facts provided is not significantly different across conditions. The non-supporting facts, on the other hand, differ significantly between conditions. The main effect of internal quality review is marginally significant (F-statistic = 2.426, p-value = .061, one-tailed), suggesting that auditors are marginally more likely to provide a higher percentage of non-supporting facts (compared to total facts) when an internal quality

review is highly likely, consistent with the prediction that the anticipation of an internal quality review will promote more effective consultations as a more balanced set of facts is shared. The interaction of social costs and internal quality review is also significant (F-statistic = 4.123, p-value = .022, one-tailed), and this is driven by participants in the lower social cost conditions. Auditors provide the highest percentage of non-supporting facts (i.e., the most balanced set of facts) when social costs are low and an internal quality review is highly likely.

Consistent with the analysis of the number and type of facts presented, analysis of the messages communicated to advisors from a linguistic perspective, as shown in the ANOVA in Table 3 Panel F, finds a marginally significant interaction (F-statistic = 2.049, p-value = .078, one-tailed). As predicted in Hypothesis 6, the anticipation of an internal quality review affects auditors differently depending on the level of social costs. When auditors anticipate that an internal quality review is highly likely to occur, it increases the degree to which they present a convincing message when social costs are low, but decreases how convincing the message is when social costs are high.

Thus, I find some support for Hypothesis 6, and conclude that although auditors communicate more persuasive messages to their advisor when facing high social costs in an effort to reduce threats to their ego and/or image, the anticipation of an internal quality review can reduce certain dimensions of persuasion. More specifically, when an internal quality review is likely to occur, auditors facing low social costs increase the amount of facts provided to the advisor that are contrary to their chosen position to present a more balanced set of facts. However, the likelihood of experiencing an internal quality review does not affect auditors facing higher social costs in the same way; rather, they present

fewer, and still supportive, facts even when an internal quality review is highly likely. Although the anticipation of an internal quality review does not prompt auditors facing higher social costs to present a more balanced set of facts, it does cause them to argue less persuasively for their chosen position. Thus in all cases, the anticipation of an internal quality review seems to promote more effective consultations, at least in part. An implication of these findings is that firms may be able to alter the behavior of auditors simply by increasing the perception that they will be subject to an internal quality review.

Supplemental Analyses

Perceptions of Internal Quality Reviews

In order to confirm that auditors consciously alter their behaviors when they believe a review will likely occur, they were asked to respond to three questions about internal quality reviews in their firm on a 10-point scale anchored at “Strongly Disagree” and “Strongly Agree.” The questions asked to what extent auditors agreed with the following statements about internal quality reviews: (1) They likely affect decisions made on the engagement, (2) They make auditors justify their decisions more thoroughly, and (3) They increase the importance of the reasonableness and quality of audit judgments. Consistent with the results of the hypotheses, participants’ responses are above the midpoint (means of 6.64, 7.16, and 6.94, respectively), suggesting that the auditors agree that internal quality reviews affect decisions made on the engagement, make auditors justify their decisions more thoroughly, and increase the importance of the reasonableness and quality of audit judgments.

Significant Demographic Variables

As mentioned in the analyses above, the results revealed certain demographic information is important in determining the likelihood that auditors seek advice and the likelihood that they will consult the manager on the issue. Gender, the participant's self-assessed performance ranking relative to their peers, and prior experience going through a PCAOB inspection are also important in determining the likelihood that auditors will seek advice. More specifically, males, lower performers, and those that had no prior PCAOB inspection experience are all less likely to seek help. Of particular interest are those that consider themselves lower performers. It seems that those most in need of help may be the ones least likely to seek it out. When it comes to the likelihood of consulting the manager on the engagement, gender and general audit experience are important determinants. More specifically, males and less experienced auditors are less likely to consult the manager and more likely to indicate that they would consult a peer. An important implication of this result is that less experienced individuals (who presumably have less expertise) may not be getting the ideal level of instruction.

VI. CONCLUSIONS AND LIMITATIONS

This study investigates important quality control and professional development features within accounting firms: consultations between auditors and internal quality review inspections. The results reveal several important findings. The social costs of seeking advice impact the consulting strategies that auditors employ, which may not always be in line with AICPA Quality Control standards. This study demonstrates that despite the importance of the task, auditors' concerns to protect and defend their egos/images can cause them to avoid pushing issues up to the manager. It also demonstrates the ability of firms' internal quality review processes to mitigate such behaviors. More specifically, I find that an impending internal quality review will encourage auditors to overcome the social pressures so that they consult the engagement manager and give them a more balanced set of facts despite social costs.

This study makes important contributions to accounting literature and to practice. I attempt to integrate multiple streams of literature and provide a new perspective on the advice-seeking process. Although existing research focuses on what decision makers do once advice is received, I propose that advice-seeking behavior is often a proactive process initiated by the decision-maker. The results provide information regarding who auditors turn to for advice, when they may or may not do so, and what kind of information they share when consulting informally. These are important factors to examine given that typically auditors autonomously choose when to consult, who to consult, and how to frame the issue they are facing.

I introduce a framework of auditor social and instrumental motivations and use this to shed light on factors that may influence the effectiveness of the informal auditor consultation process. I do this by examining how an auditor's concern about his or her ego and image can impact consultation practices. The audit literature has extensively explored auditor external reputation formation in experimental market settings (e.g., Kachelmeier 1991; Mayhew 2001; Mayhew et al. 2001). However, fewer studies have investigated the individual auditor's image *within* the firm and how this affects auditor behavior (see Sweeney and Pierce 2006 and Stefaniak and Robertson 2010 for interview information about reporting hours under budget pressure and experimental evidence about accounting students reporting errors, respectively). I find that auditor's concerns about their individual reputations can decrease the likelihood that they will seek help when it is needed, and even if they choose to seek help, their concerns can drive them to get help from a less experienced and less senior peer rather than the engagement manager.

I provide evidence regarding the positive impact of a potential internal quality review on auditors' consultation practices. Although these internal inspections have not received much attention in the accounting literature, the internal quality review process has become an important mechanism for promoting audit quality and firms expend considerable resources to perform the reviews. My findings suggest that these reviews not only help audit firms improve their future audits going forward, but also improve audit quality on the on-going audits that are subject to such reviews.

This study should also be of interest to practitioners. The findings demonstrate that the environment created by the audit team matters. Teams should not only encourage

members to share information and ask questions, but firms should be aware of the hesitation some may have in seeking advice. These findings should alert superiors to situations where an auditor may not feel comfortable asking for help. Furthermore, this may be mitigated, at least in part, when auditors anticipate that an internal quality review may occur. This finding may be of use to firms as they share information with their auditors regarding their internal review process (e.g., what the process entails, how engagements are selected, etc.) as auditors' behaviors may be shaped by their perceptions of this process.

Care should be taken in interpreting the results from this study. In addition to the limitations present in all experimental studies, there are several limitations specific to this particular study. First, auditors that participated in the study averaged approximately four years experience. It is reasonable to assume that as auditors gain experience within the firm, they encounter additional incentives and pressures that may impact advice-seeking behavior. Second, it is difficult to completely replicate the pressures that exist in practice in experimental settings. This likely biases against finding results for my hypotheses as social costs may be stronger and/or more pervasive in the field. Practicing auditors have been consulted during the development of the experimental instrument to facilitate the induction of the appropriate pressures. Finally, in practice, auditors may consult with multiple advisors. Although my design does not allow for them to seek advice from multiple individuals, it is probable that the outcome of an initial consultation will strongly influence whether or not additional individuals are consulted. Whether auditors seek advice from multiple individuals may be a fruitful area for future research to examine.

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TABLE 1 – TESTS OF HYPOTHESES 1 AND 2

Panel A: Mean Likelihood of Seeking Advice

Social Cost Conditions	Likelihood of Internal Quality Review		Likelihood of Internal Quality Review		Row Means	
	Not Likely		Highly Likely			
Low	Mean =	9.45	Mean =	9.43	Mean =	9.41
	Std. dev. =	1.08	Std. dev. =	0.78	Std. dev. =	0.93
	n =	23	n =	25	n =	48
High	Mean =	8.58	Mean =	8.92	Mean =	8.78
	Std. dev. =	1.14	Std. dev. =	1.56	Std. dev. =	1.36
	n =	23	n =	23	n =	46
Column Means	Mean =	8.98	Mean =	9.22	Mean =	9.10
	Std. dev. =	1.15	Std. dev. =	1.24	Std. dev. =	1.20
	n =	46	n =	48	n =	94

Panel B: ANCOVA Results

	df	MS	F-statistic	p-value
Internal Quality Review (IQR)	1	0.64	0.53	0.469
Social Costs (SC)	1	11.12	9.22	0.002 ^a
IQR * SC	1	0.72	0.60	0.221 ^a
Firm	1	7.82	6.49	0.013
Gender	1	4.212	3.49	0.065
Performance rank	1	3.38	2.80	0.098
PCAOB inspection experience	1	6.10	5.06	0.027
Error	86	1.21		
Total	94			

Panel C: Test of Hypothesis 2

Planned Contrast	t-statistic	df	p-value
The effect of social costs on auditors' likelihood of seeking advice is smaller when and internal quality review is highly likely.	2.415	36 ^b	0.011 ^a

Likelihood of seeking advice was measured on an 11-point scale anchored at “Very Unlikely” and “Very Likely.” The variables are defined as follows: Social Costs (SC) are the social costs associated with seeking advice, and these are manipulated as either high or low through the description of the engagement environment. Internal quality review (IQR) represents the perceived likelihood that an internal quality review will occur on the engagement, and it is manipulated as either highly likely or not likely. Firm represents the audit firm at which the participant works. Gender represents whether the participant was male or female. Performance rank represents the participant’s self-assessed performance ranking relative to their peers. PCAOB inspection experience represents whether or not the participant has participated in a PCAOB inspection on one of their engagements.

^a One-tailed

^b The test is adjusted for unequal variances.

TABLE 2 – TESTS OF HYPOTHESES 3 AND 4

Panel A: Mean Likelihood of Consulting with Manager

Social Cost Conditions	Likelihood of Internal Quality Review		Row Means	
	Not Likely	Highly Likely		
Low	Mean = 9.24 Std. dev. = 2.21 n = 23	Mean = 10.42 Std. dev. = 0.77 n = 25	Mean = 9.98 Std. dev. = 1.70 n = 48	
High	Mean = 7.98 Std. dev. = 3.55 n = 23	Mean = 9.29 Std. dev. = 2.47 n = 23	Mean = 8.50 Std. dev. = 3.12 n = 46	
Column Means	Mean = 8.59 Std. dev. = 3.05 n = 46	Mean = 9.90 Std. dev. = 1.88 n = 48	Mean = 9.26 Std. dev. = 2.59 n = 94	

Panel B: ANCOVA Results

	df	MS	F-statistic	p-value
Internal Quality Review (IQR)	1	35.91	6.56	0.012
Social Costs (SC)	1	31.28	5.71	0.010 ^a
IQR * SC	1	0.11	0.02	0.445 ^a
Likelihood of Seeking Advice	1	22.82	4.17	0.044
Gender	1	19.87	3.63	0.060
Total Experience	1	26.33	4.81	0.031
Error	87	5.48		
Total	94			

Likelihood of consulting the manager was measure on an 11-point scale anchored at “Definitely a peer who used to be on the engagement” and “Definitely the manager on the engagement.” The variables are defined as follows: Social Costs (SC) are the social costs associated with seeking advice, and these are manipulated as either high or low through the description of the engagement environment. Internal quality review (internal quality review) represents the perceived likelihood that an internal quality review will occur on the engagement, and it is manipulated as either highly likely or not likely. Likelihood of Seeking

Advice represents the likelihood that the auditor would seek advice on the issue. Confidence represents the auditor's confidence in making the inventory decision presented in the task materials. Gender represents whether the participant was male or female. Total experience represents the number of months that the participant has been an auditor.

^a One-tailed

TABLE 3 – TESTS OF HYPOTHESES 5 AND 6

<i>Panel A: Total Facts</i>					
Likelihood of Internal Quality Review					
Social Cost Conditions	Not Likely		Highly Likely		Row Means
Low	Mean =	5.66	Mean =	6.94	Mean = 6.32
	Std. dev. =	3.42	Std. dev. =	3.58	Std. dev. = 3.53
	n =	29	n =	31	n = 60
High	Mean =	7.43	Mean =	6.50	Mean = 6.95
	Std. dev. =	4.25	Std. dev. =	2.46	Std. dev. = 3.44
	n =	28	n =	30	n = 58
Column Means	Mean =	6.53	Mean =	6.72	Mean = 6.63
	Std. dev. =	3.92	Std. dev. =	3.06	Std. dev. = 3.49
	n =	57	n =	61	n = 118

<i>Panel B: Balance of Facts</i>					
	Not Likely		Highly Likely		Row Means
Low	Mean =	0.39	Mean =	0.15	Mean = 0.26
	Std. dev. =	0.42	Std. dev. =	0.47	Std. dev. = 0.46
	n =	28	n =	31	n = 59
High	Mean =	0.32	Mean =	0.37	Mean = 0.35
	Std. dev. =	0.38	Std. dev. =	0.37	Std. dev. = 0.37
	n =	27	n =	30	n = 57
Column Means	Mean =	0.36	Mean =	0.26	Mean = 0.31
	Std. dev. =	0.40	Std. dev. =	0.43	Std. dev. = 0.42
	n =	55	n =	61	n = 116

Panel C: How Convincing Communications Were to the Advisor

	Not Likely	Highly Likely	Row Means	
Low	Mean = 3.24	Mean = 3.82	Mean = 3.54	
	Std. dev. = 2.11	Std. dev. = 2.15	Std. dev. = 2.13	
	n = 29	n = 31	n = 60	
High	Mean = 4.63	Mean = 4.05	Mean = 4.32	
	Std. dev. = 2.75	Std. dev. = 1.68	Std. dev. = 2.25	
	n = 27	n = 30	n = 57	
Column Means	Mean = 3.91	Mean = 3.93	Mean = 3.92	
	Std. dev. = 2.52	Std. dev. = 1.92	Std. dev. = 2.22	
	n = 56	n = 61	n = 117	

Panel D: ANCOVA Results

Total Facts Communicated to Advisor

	df	MS	F-statistic	p-value
Internal Quality Review (IQR)	1	0.95	0.08	0.774
Social Costs (SC)	1	14.13	1.23	0.135 ^a
IQR * SC	1	32.55	2.83	0.048 ^a
Format	1	73.09	6.35	0.013
Error	113	11.50		
Total	118			

Panel E: ANCOVA Results

Balance of Facts Communicated to Advisor

	df	MS	F-statistic	p-value
Internal Quality Review (IQR)	1	0.29	1.75	0.094
Social Costs (SC)	1	0.19	1.12	0.146 ^a
IQR * SC	1	0.56	3.33	0.035 ^a
Confidence	1	0.47	2.79	0.098
Error	111	.168		
Total	118			

Panel F: ANOVA Results

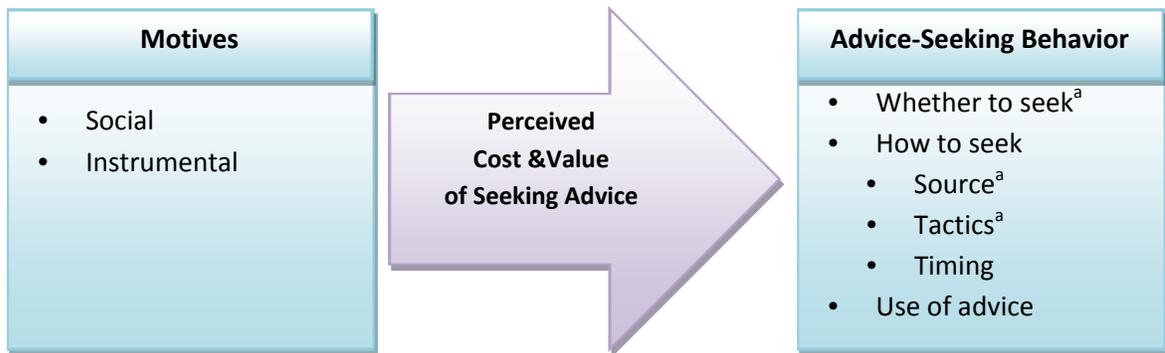
How Convincing Communications Were to Advisor

	df	MS	F-statistic	p-value	
Internal Quality Review (IQR)	1	<0.01	<0.01	0.998	
Social Costs (SC)	1	19.04	3.97	0.024	^a
IQR * SC	1	9.83	2.05	0.078	^a
Error	112	4.70			
Total	117				

The variables are defined as follows: Social Costs (SC) are the social costs associated with seeking advice, and these are manipulated as either high or low through the description of the engagement environment. Internal quality review (IQR) represents the perceived likelihood that an internal quality review will occur on the engagement, and it is manipulated as either highly likely or not likely. Format represents whether the participant completed the experimental materials online or hardcopy. Confidence represents the auditor's confidence in making the inventory decision presented in the task materials.

^a One-tailed

FIGURE 1 – CONCEPTUALIZATION OF THE ADVICE-SEEKING PROCESS*



*Conceptualizations of the feedback-seeking process from recent reviews of the literature shape the overall framework (e.g., Ashford et al. 2003; Anseel et al. 2007), with the specific types of advice-seeking behavior in the figure being drawn from the newcomer socialization literature in organizational behavior (whether and how to seek) (Morrison 2002) and the Judge-Advisor System from psychology (use of advice) (Bonaccio and Dalal 2006).

^a Decision points currently considered in this study.

FIGURE 2 – LIKELIHOOD OF SEEKING ADVICE

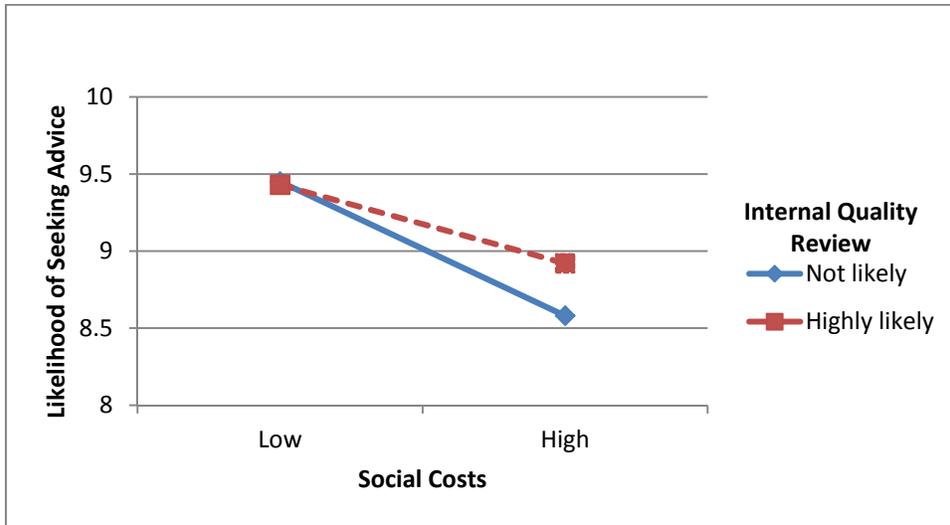


FIGURE 3 –LIKELIHOOD OF CONSULTING THE MANAGER

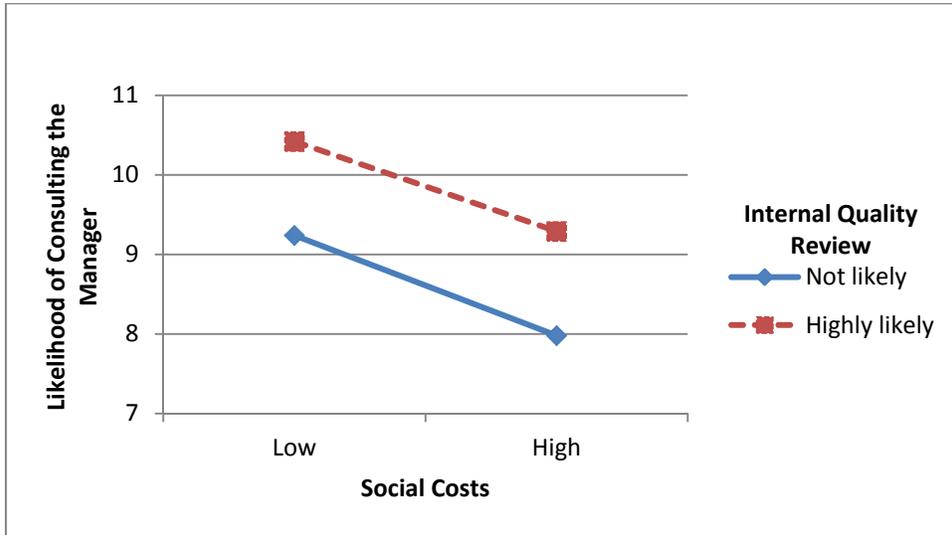


FIGURE 4A – PERSUASIVENESS OF COMMUNICATIONS – *TOTAL NUMBER OF FACTS*

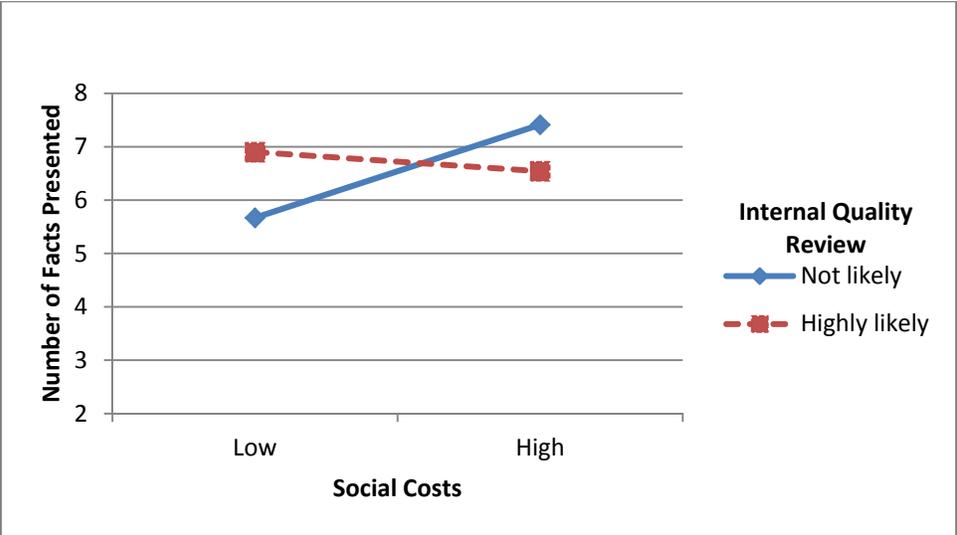


FIGURE 4B – PERSUASIVENESS OF COMMUNICATIONS – *BALANCE OF (NON)SUPPORTING FACTS*

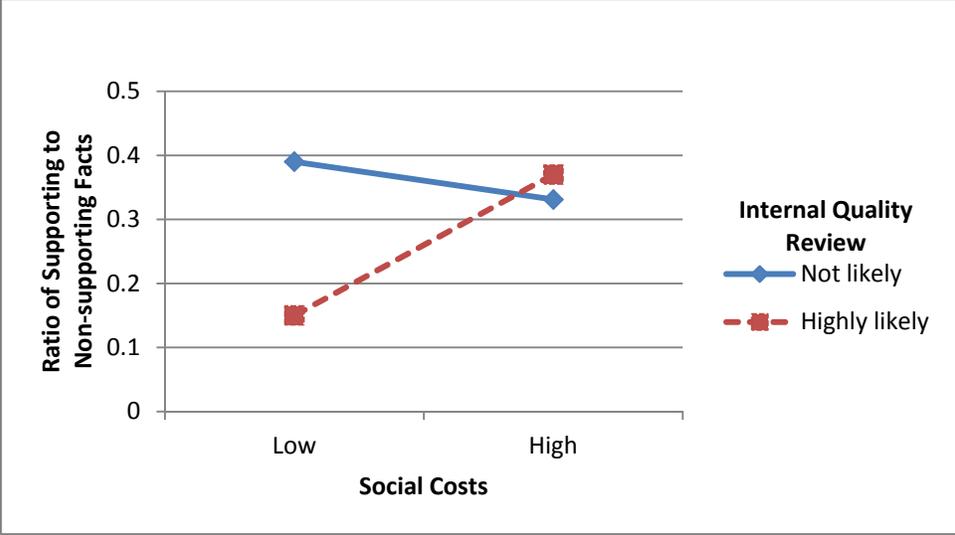


FIGURE 4C – PERSUASIVENESS OF COMMUNICATIONS – *HOW PERSUASIVE IS THE MESSAGE*

