



## AUDITOR-CLIENT NEGOTIATION STRATEGIES IN SOLVING CONTENTIOUS ACCOUNTING ISSUES

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### ABSTRACT

Negotiation is one of the methods for problem solving. The negotiation strategy comprises both competition and mutual-gains situations, otherwise termed as distributive and integrative. Each of the strategy has their own tactics and approaches. Distributive strategy comprises of contending, accommodating and concession. Otherwise, integrative strategy comprises of collaboration and compromising. Auditors have a different perception for choosing the best strategy that depends on the conditions and outcomes. Therefore, this study seeks to investigate the negotiation strategy employs by auditors during negotiation. Specifically, this study provides 15 questions that characterize the negotiation strategy. This study employs 88 experienced auditors from small and medium sized firms located in the East Coast of Malaysia. This study was using SPSS 18 to make descriptive statistics in order to find the frequency for each tactic. The results show that external auditors preferred concession tactics during negotiation in resolving the contentious issues

**KEYWORDS:** Negotiation Strategy, External Audit

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### INTRODUCTION

Auditor as an independence body is responsible to ensure that the account is prepared in compliance with the standard and that it complies with the rules and regulations without any constraint (Devi, Mohd Iskandar, & Isa, 2003). Auditors in respect of duty are obligated to resolve accounting and auditing issues with the client management in the audit process. In order to solve disputes, the auditor may use the negotiation method as an approach with the client management.

However, negotiation may have some effect on the audit process due to the close relationship between the auditor and the client and then may impair auditor independence (Gibbins, McCracken, & Salterio, 2006). The issue of auditor independence is an important aspect, which needs to be considered because the auditor is obligated to preserve the audit quality (Chen, Elder & Liu, 2005). Thus, it is important to understand negotiation between the auditor and the client because financial reporting quality can be considered to depend on the negotiation.

Although research into negotiation between the auditor and client has increased; the area is still classified as 'understudied' (McCracken, Salterio & Gibbins, 2008, p.362). This is caused by previous studies overlooked exploring strategies for solving contentious accounting issues. Thus, research on solving the contentious accounting issues using the negotiation strategy is considered as understudied and important.

This study decided to further explore on the negotiation strategy and tactics. Negotiation can be divided into two (2) strategies; integrative and distributive. Integrative strategy is mutual-gain situation. Otherwise distributive is competition situation. Integrative strategy comprises of collaboration and compromising tactics. On the other hand, distributive strategy comprises of contending, accommodating and concession tactics (Lewicki, Barry & Saunders, 2010; Lewicki, Hiam & Olander, 1996).

This study employs 88 experienced auditors from medium and small sized firms in the East Coast of Malaysia. The study assesses the negotiation strategies and the auditor's likelihood of using the various tactics as outlined above.

Findings of this study suggest that most of the respondents (external auditor) chose to utilize concession, which is a distributive strategy compared to other tactics in negotiation.

The remainder of this paper is organized as follows. The next section reviews the relevant literature concerning the negotiation strategy. The third and fourth sections describe the research method and present the findings of the study, respectively. The final section summarizes the study, discusses the limitations, and proposes directions for future research.

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### LITERATURE REVIEW



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Auditors and clients are frequently resolving accounting issues in negotiations (Perrault & Kida, 2011). Negotiation strategy can be divided into distributive and integrative (Lewicki, Barry & Saunders, 2010; Lewicki, Hiam & Olander, 1996). Integrative strategy is mutual-gain situation. Otherwise distributive is competition situation. Integrative strategy comprises of collaboration and compromising tactics. On the other hand, distributive strategy comprises of contending, accommodating and concession tactics.

Kleinman and Palmon (2003) studied on collaboration tactic. Collaboration tactic, as one of the integrative strategy in the negotiation theory is classified as positive contentment at the end of the negotiation. In addition, the study also supported that the level of hierarchical position is interrelated with asserting (forcing) and collaboration tactics in negotiation.

Goodwin (2002) revealed that the auditor is more likely to implement the integrating style in resolving issues. The compromising tactic is employed when there is fewer use of an obliging (accommodating) tactics. In addition, partners have more vigorous styles than managers in managing management disputes. Moreover, the size of client and strength of corporate governance might have a tiny impact on the auditor's negotiation style. These results were acquired from an experimental case adapted from Rahim (1990) regarding dispute regarding the inventory, which takes obliging (accommodating), compromising tactic and integrating styles, and was tested among audit partners and managers from Australia and New Zealand.

In addition, Gibbins et al. (2006) stated that competition (distributive) strategy is used when the auditor is faced with inflexible clients. In contrast, a mutual solution strategy is used for flexible clients to modify their initial accounting position. In addition, the results also showed that the relationship does not significantly influence the auditor's negotiation strategy. Besides that, the auditors are more into competition (distributive) strategy when they have power and a target commitment to make diminutions in the client's net income. The study used a published case of definite negotiation as the experimental case adapted from Kleinman and Palmon (2000). The case was tested among audit partners, audit senior and accounting students. In the experiment, respondents were required to execute as audit partners who received a report from the audit team manager about the disagreement between client management, thus, the negotiation approach was required.

Moreover, Ng (2007), in their study, explained that the auditor goes for waive when they are facing immaterial audit difference and the client has a well capability to meet the analysts' expectations. Furthermore, auditors' knowledge about the earnings threshold may give confidence to auditors to waive the audit difference. Initially, the study looked at the auditor perception concerning the financial issues, and whether or not they should be waived. The issues were demonstrated from the audit differences in the earnings threshold nearer the client's efforts. The experimental case was based on the earnings threshold, which was tested using audit seniors and managers of the big four (4) firms to respond about the audit difference. This study used the threshold and subjectivity as the independent variables.

### RESEARCH METHOD

#### The case setting

This study is using an experiential questionnaire and was performed among external auditors in the East Coast of Malaysia such as audit staff, audit seniors, managers and audit partners as the top level in the audit firm. This questionnaire consists of 15 questions, which definite both strategies.

#### Data and sample characteristics

The data used for this study was collected from external auditors from registered firm under Malaysian Institute of Accountants (MIA) in the East Coast of Malaysia for the year 2013. Based on Krejcie and Morgan (1970) table, approximately 144 respondents were required for this study. This study was able to get 140 respondents at the end of the collection process. 88 of them had experience in negotiation, and none experience for the rest respondents. The data from experience respondents then were analyzed with using the Statistical Package for the Social Sciences (SPSS).

### RESULTS



This section discusses the negotiation strategies and tactics in respect of negotiation theory. As mentioned, there are 15 questions that illustrated the negotiation strategies and tactics. These five tactics are compromising, collaboration, concession, contending and accommodating. The first two tactics were classed as integrative strategy, and the last three tactics were classed as distributive strategy. All these questions then were analyzed by using Statistical Package for the Social Sciences (SPSS).

Strategy	Tactics	Mean	Standard Deviation
Distributive	Concession	3.99	0.629
	Contending	3.86	0.899
	Accommodating	3.80	0.636
Integrative	Compromising	3.96	0.716
	Collaboration	3.98	0.597

*Table 1: Overall tactics likelihood of use*

Table 1 shows the result of overall tactics likelihood of use by external auditors in the East Coast of Malaysia for the year 2013. Based on the table 1, it shows that external auditors preferred concession tactics during negotiation in resolving the contentious issues. Second most preferred is collaboration tactic. The least preferred is accommodating tactics.

Strategy	Mean	Standard Deviation
Distributive	3.885	0.573
Integrative	3.972	0.557

*Table 2: Total mean for strategies*

Table 2 shows the result of the total mean for each strategy. These 5 tactics illustrated in Table 1 then were computed to get the total mean for each strategy. Based on the Table 2, it shows that integrative strategy is attractive than distributive strategy when get the total high mean of 3.972. Otherwise, distributive strategy only gets the total mean of 3.885. Thus, it can be concluded that tactics presented in integrative strategy are attractive than tactics in the distributive strategy.

## CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

This study investigates the negotiation strategy employs by auditors during negotiation. Negotiation strategy can be divided into distributive and integrative (Lewicki, Barry & Saunders, 2010; Lewicki, Hiam & Olander, 1996). Integrative strategy is mutual-gain situation. Otherwise distributive is competition situation. Integrative strategy comprises of collaboration and compromising tactics. On the other hand, distributive strategy comprises of contending, accommodating and concession tactics.

Finding of the study shows that external auditor preferred concession tactics during negotiation in resolving the contentious issues. Furthermore, external auditors were least preferred with accommodating tactics. As overall, it



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can be concluded that tactics presented in integrative strategy are attractive than tactics in the distributive strategy. Further research is encouraged to support the finding.

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