The impact of commitment and moral reasoning on auditors’ responses to social influence pressure

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Abstract

This paper reports the results of an experiment examining whether social influence pressures within the accounting firm affect auditors’ willingness to sign-off on financial statements that are materially misstated. We also evaluate the effects of organizational commitment, professional commitment, and moral development as three variables that may impact individual responses to social influence pressure. A sample of 171 auditors from one international firm participated in a between-subjects experiment with obedience pressure from superiors and conformity pressure from peers as the social influence pressure treatments. The results indicate that obedience pressure significantly increased auditors’ willingness to sign-off on an account balance that was materially misstated, although conformity pressure did not. The findings also supported the predictions for organizational commitment. However, the predicted effects for professional commitment and moral development did not emerge. \copyright 2001 Elsevier Science Ltd. All rights reserved.

1. Introduction

This study empirically examines the effects of social influence pressures on auditor decisions. Specifically, we evaluate the effects of inappropriate obedience and conformity pressures generated from within the accounting firm on auditors’ decisions to sign-off on financial statements that are materially misstated. We also examine whether organizational commitment, professional commitment, and moral development affect auditors’ decisions under social influence pressure.

Research in this area is motivated by the large body of evidence suggesting that auditor dysfunctional behavior can be attributed to a wide variety of pressures (e.g., DeZoort & Lord, 1997; Ponemon, 1990, 1992a, b; Tsui & Gul, 1996; Windsor & Ashkanasy, 1995). Increasingly, the accounting literature recognizes and reflects the importance of evaluating the impact of pressures generated from within the accounting organization on auditor attitudes, intentions, and behavior. This stream of research has important implications for auditor professionalism (Grey, 1998), the auditor socialization process (Fogarty, 1992; Ponemon, 1992a), and professional control within the organization (Abernethy & Stoeplwinder, 1995; Dirsmith & Covaleski, 1985).

Considerations of organizational and environmental pressures have focused in part on how audit professionals respond to inappropriate social influence pressure generated from within the accounting.

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firm. Specifically, the extant literature provides evidence that auditors are susceptible to inappropriate social influence pressure from superiors (e.g., DeZoort & Lord, 1994) and peers (e.g., Ponemon, 1992b) within the accounting firm. Collectively, these research interests recognize that “being a professional operates in a series of rich, albeit sometimes paradoxical and problematic, ways to regulate and reproduce social relations within the firm” (Grey, 1998, p. 584). However, social influence pressures as sources of auditor and audit conflict remain relatively unaddressed in accounting.

Current professional standards in the USA provide clear guidance for auditors who feel pressured by colleagues to act inappropriately. For example, Statement on Auditing Standard (SAS) No. 22, Planning and Supervision, provides auditors with specific guidance when there are differences of opinion on an audit (AICPA, 1997). In particular, SAS 22 states that auditors:

should be aware of the procedures to be followed when differences of opinion concerning accounting and auditing issues exist among firm personnel involved in the audit. Such procedures should enable an assistant to document his disagreement with the conclusions reached if, after appropriate consultation, he believes it necessary to disassociate himself from the resolution of the matter (AU Section 311.14; AICPA, 1997, p. 245).

The AICPA Professional Code of Conduct also provides direct guidance for auditors when they encounter inappropriate pressure from colleagues within the accounting firm. For example, Rule 102, Integrity and Objectivity, explicitly prohibits members from subordinating their judgment to others, including colleagues within the accounting firm (ET section 102.01; AICPA, 1997). Interpretation 102-4, Subordination of Judgment by a Member, provides detailed guidance for auditors in such conflict situations by stating that “if a member and his or her supervisor have a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the member should take steps to ensure that the situation does not constitute a subordination of judgment” (AICPA, 1997, p. 4442).

For example, the Code first recommends that auditors consider whether a superior’s position is appropriate and does not materially misrepresent the facts. If subordinate auditors believe that a superior’s position materially misrepresents the facts, they should make the concern known to a higher level of management within the firm and consider developing a trail of documentation (e.g., understanding of the facts, accounting principles involved, parties involved in the discussion). Finally, the Code advises auditors in situations where appropriate action is not taken to consider discontinuing work at the firm and whether third parties (e.g., regulatory authorities) should be notified. In all cases, auditors are instructed to “be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts” (Interpretation 102-3; AICPA, 1997, p. 4442).

Despite this clear guidance in the area of professional disagreements, auditors face many confounding pressures that probably affect their ability to take a stand in conflict situations. For example, even if auditors clearly understand their professional responsibilities, they may choose to act unethically to ensure a positive performance evaluation or to simply be viewed as a team player. Auditors also may act unethically in social influence pressure situations because of an overall sense of futility. The Securities and Exchange Commission (SEC) has ruled that “an independent accountant cannot excuse his failure to comply with GAAS because of a sense of futility...such failure cannot be excused by pointing to pressure, whether from clients or partners” (SEC, 1993).^2

In addition to evaluating auditors’ susceptibility to pressures generated from within the accounting

^2 This SEC case involved an audit partner who instructed an audit manager to sign-off on workpapers that the manager believed contained material misstatements (SEC, 1993; Rankin, 1993). The manager ultimately obeyed the partner and signed-off, despite resisting the pressure initially and understanding firm procedures allowing auditors to “disassociate” themselves from audits when disagreements prevail. The SEC ruled that such obedience is not acceptable and suspended the partner and manager from practice before the SEC for 5 years and 18 months respectively.
firm, we also examine individual characteristics that can affect professionals’ considerations of ethical dilemmas. For example, we believe that inappropriate social influence pressures within accounting firms present unique settings where organizational commitment and professional commitment may conflict. Auditors placed in ethical conflict situations by their colleagues must evaluate the potential short-term and long-term consequences of their actions from both an organizational and professional perspective and attempt to reconcile perceived trade-offs.

The paper is organized as follows. The next section provides the theoretical justification for the study’s hypotheses related to obedience pressure, conformity pressure, organizational and professional commitment, and moral development. An overview of the study’s design and methodology is then presented, followed by a reporting of the results. Finally, implications and limitations of the study are discussed.

2. Theory and hypothesis development

2.1. Social influence pressures

We focus on obedience pressure and conformity pressure as two types of social influence pressure that can affect auditor performance. Obedience pressure results from commands made by individuals in positions of authority (Brehm & Kassin, 1990). The theoretical underpinnings of obedience theory suggest that superiors’ instructions within an organization affect subordinates’ behavior because superiors have authority.\(^3\) Specifically, Milgram’s classic obedience to authority paradigm (Milgram, 1963, 1965, 1974) explains that an individual under obedience pressure will make a psychological break from an autonomous state of being, where decisions are made based on attitudes, values, and beliefs, to an agentic state seemingly removed from responsibility. Subordinate individuals in this state are likely to yield to situational forces and incentives, without exercising the level of introspection found in an autonomous state. Consequently, the break from autonomous thinking can result in obedient behavior, even when the behavior is inconsistent with attitudes, beliefs, and values.

Previous research suggests that inappropriately obedient behavior results from normative mechanisms (such as the superior’s ability to reward or punish) when the superior’s position clearly is wrong (Campbell & Fairey, 1989). The specific effect of inappropriate applications of authority probably depends on individuals’ assessments of the potential costs and benefits associated with their responses. For example, auditors may prioritize the importance of securing a favorable evaluation from a supervisor providing inappropriate instruction over the risk of “getting caught.” This explanation of obedient behavior is consistent with the commonly accepted notion that subordinates believe superiors are responsible for setting the tone for professional behavior in a firm (Finn & Munter, 1991; National Commission on Fraudulent Financial Reporting, 1987; Otley & Pierce, 1996). For example, Otley and Pierce (p. 68) noted the strength of superiors’ influence within large audit firms when they suggested that “the behavior of the manager, who is cast in a leadership role, is expected to be an important influence on the senior’s behavior.”

The accounting literature provides some limited evidence supporting the susceptibility of subordinate auditors to inappropriate influence from superiors (e.g., DeZoort & Lord, 1994; Kermis & Mahapatra, 1985; Lightner, Adams & Lightner, 1982). In the area of time budgets, Otley and Pierce (1996) found that the explicit and implied approval of supervisors significantly affected underreporting of time. Lightner et al. also found that managers’ requests or approval significantly influenced underreporting of time by seniors. Kermis and Mahapatra reached similar conclu-
sions when their results indicated that auditor preparation of time budgets are significantly affected by managers’ instructions.4

DeZoort and Lord (1994) provided some initial direct evidence that obedience pressure can have a clearly adverse effect on auditors’ judgments. Using three separate ethical dilemma vignettes and obedience pressure treatments from audit managers and partners, 146 staff auditors provided likelihood judgments related to whether they would act dysfunctionally in cases related to accounts receivable confirmation, inventory observation, and continuing professional education reporting. The results provided consistent evidence that auditors are susceptible to obedience pressure from superiors within the accounting firm. However, as noted by Solomon (1994), the study was limited to the extent that it only evaluated obedience pressure effects on auditors’ likelihood judgments about planned courses of action.

This study extends understanding of obedience pressure effects by progressing beyond likelihood measurements to specific outcome measures. As described more thoroughly below, auditors were asked to assign a specific acceptable balance that they would sign-off on for an asset account that has questionable realizable value. In this context, higher assigned balances lead to a higher probability of material misstatement in the financial statements than do lower balances. We hypothesize that inappropriate obedience pressure will cause auditors to assign a higher balance for the asset account under question. Stated formally:

H1: Auditors under obedience pressure will
sign-off on a higher balance for a questionable asset account than will auditors under no obedience pressure.

2.2. Conformity pressure

This study also evaluates conformity pressure as an alternative form of social influence pressure that has the potential to adversely affect auditor performance. Conformity refers to behavior affected by examples set by equals or peers, not by instructions from authority figures. People conform in normative influence situations because they fear the negative consequences of appearing deviant (Brehm & Kassin, 1990; Deutsch & Gerard, 1955). In particular, individuals tend to prefer acting in ways that do not make them stand out for attention.5 Because the hierarchical power distance is not present as it is with obedience pressure, we anticipate that conformity pressure will affect auditor performance less than obedience pressure.6 In particular, peers within the accounting organization have fewer opportunities to reward or punish (e.g. via performance evaluations) than do superiors. Nevertheless, social influence theory suggests that inappropriate conformity pressure from peers within the accounting firms has the potential to influence auditors’ judgments in ethical dilemmas.

In Asch’s (1951, 1956) classic conformity studies, he focused on conditions where individuals would break from states of independent judgment to states reflecting arbitrary peer direction. Using a visual discrimination task involving lines of different lengths, Asch found that a majority of subjects were willing to conform to the clearly incorrect views of their peers in assessing line length. Brehm and Kassin (1990, p. 398) summarized the importance of these findings when they noted that the “task was relatively simple and they could see with

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4 As noted in the literature (e.g., Dirsmith & Covaleski, 1985; McNair, 1991; Ponemon, 1992b), inferences made about the dysfunctional effects of social influence pressure on auditor underreporting of time are limited to the extent that the behavior is perceived as unethical. The possibility remains that underreporting time is a personal choice that reflects altruism.

5 Brehm and Kassin (1990) also emphasized the importance of distinguishing private conformity from public conformity. Private conformity refers to situations where individuals not only change their overt actions, but change their minds. Public conformity refers to superficial changes where individuals go along with the group, even though they privately disagree or question the action.

6 In this study, hierarchical power distance refers to the differential power that superiors and peers have over individual auditors. This power difference is based in large part on superiors’ authority to formally evaluate performance and affect career progression within the firm.
their own eyes that their own answers were correct. Still, they often went along with the incorrect majority.” In addition, Asch’s studies revealed that conforming individuals are often burdened with making decisions they privately disagree with.

In accounting, the dysfunctional effects of conformity pressure have primarily been alluded to in previous studies (e.g., Dirsmith & Covaleski, 1985; Lightner et al., 1982; McNair, 1991; Ponemon, 1992b). For example, Ponemon acknowledged that peer pressure in accounting firms may lead to dysfunctional outcomes because auditors may perceive others doing the same thing or that their performance is deficient in some way. In his study of underreporting time, Ponemon found that peer pressure was a significant antecedent to underreporting behavior. We suggest that the need to be “part of the team” and “not rock the boat” will also affect auditor willingness to sign-off on materially misstated financial statements. Therefore, we predict that conformity pressure will affect auditor’s decisions about an acceptable account balance by causing the auditors to accept a higher balance for the asset account under question. However, we also predict that difference in hierarchical power distance will make conformity pressure less influential than obedience pressure. Stated formally:

H2: Auditors under conformity pressure will sign-off on a higher balance for a questionable asset account than will auditors under no conformity pressure.

H3: Auditors under obedience pressure will sign-off on a higher balance for a questionable asset account than will auditors under conformity pressure.

2.3. Individual variables

Our evaluation of obedience and conformity pressure effects includes a number of individual variables that have the potential to enhance understanding in the area. In particular, we posit that organizational commitment, professional commitment, and moral development are individual characteristics that can affect professionals’ willingness to submit to inappropriate social influence.

2.3.1. Organizational commitment

Organizational commitment is defined as the strength of an individual’s identification with and involvement in a particular organization (Harrell, Chowning & Taylor, 1986; Mowday, Steers & Porter, 1979; Nouri & Parker, 1998). Individuals with high organizational commitment are characterized by “a strong belief in and acceptance of the organization’s goals and values; a willingness to exert considerable effort on behalf of the organization; and a strong desire to maintain membership in the organization” (Mowday et al., 1979, p. 226). In an auditing context, organizational commitment has been a construct of interest among researchers and practitioners because of its potential to improve audit quality. Organizational commitment increases as the result of a complex socialization process within the accounting firm (Fogarty, 1992) and can be distinguished on affective (attitudes) and continuance (intentions) dimensions (Meyer, Allen & Gellatly, 1990; Nouri & Parker, 1998).7

Although organizational commitment has been used in a variety of settings in the accounting literature, we are particularly interested in the growing body of evidence that links organizational commitment to dysfunctional auditor attitudes, intentions, and behavior (e.g., Aranya & Ferris, 1984; Nouri & Parker, 1998; Otley & Pierce, 1996). For example, Otley and Pierce found that organizational commitment was significantly related to premature sign-offs, and audit quality reduction behaviors, and the under-reporting of time.8 For premature sign-offs and quality reduction behaviors, the predicted negative

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7 Nouri and Parker (1998) highlighted the need to distinguish between affective commitment and continuance commitment when considering organizational commitment. In particular, they focused on the affective commitment dimension in their evaluation of budget participation among corporate managers because it “may have a stronger relationship to work outcomes such as performance” (p. 470). In the absence of clear evidence on the dimensions’ relative efficacy in explaining performance, we consider both the affective and continuance dimensions of the organizational commitment construct.

8 Otley and Pierce (1996) operationalized audit quality reduction behaviors by measuring how often auditors accepted weak client explanations, made superficial review of documents, failed to research an accounting principle, and reduced work below reasonable levels.
relation between organizational commitment and dysfunctional behavior was found (i.e. higher organizational commitment was associated with fewer quality reduction behaviors). Interestingly, their results for underreporting time were contrary to expectations in that a marginally significant positive relation was found with organizational commitment.

In the absence of social influence pressure, we hypothesize a positive relation between organizational commitment and resistance to client’s inappropriate efforts to misstate financial statements. We forward this prediction to demonstrate the potential for positive organizational commitment effects in the face of client pressure and to provide a baseline for assessing the ambiguity created when social influence pressures are introduced (discussed below). In particular, we posit that auditors with high organizational commitment will be more interested in preserving audit quality when faced with client pressure than auditors with low organizational commitment. Stated formally:

**H4a:** When under no social influence pressure, auditors with high organizational commitment will sign-off on a lower balance for a questionable asset account than auditors with low organizational commitment.

When social influence pressures (e.g., obedience and conformity) are introduced, the effect of organizational commitment becomes more ambiguous (Somers & Casal, 1994). For example, to the extent that individuals are concerned that social influence pressures from within the organization do not represent the organization’s goals and values, high organizational commitment should lead to resistance to inappropriate conformity and obedience pressure. Somers and Casal (p. 271) referred to such employees as “reformers who wish to put their organizations back on course.” Specifically, this orientation suggests that high organizational commitment could motivate loyal individuals to be intolerant of wrongdoing because it is harmful to the organization.

Alternatively, to the extent that the strength of the auditor’s identification with the organization is contingent upon receiving positive feedback (via positive formal and informal evaluations) from peers and superiors, high organizational commitment could lead to unethical behavior in an effort to preserve and enhance status within the firm. Randall (1987) characterized such individuals as risk averse when it comes to job security. Given this orientation, Somers and Casal (1994, p. 271) suggested that “because commitment is thought to result in conformity and loyalty, committed employees are hypothesized to be less likely to report observed organizational wrongdoing, for such an action is likely to be perceived as too risky.” In this case, auditors may perceive the need to acquiesce to remain a part of the organization. Therefore, we predict that the effects of organizational commitment will diminish when social influence pressures are present. Stated formally:

**H4b:** When under social influence pressure, the level of organizational commitment will not affect the balance that auditors are willing to sign-off on for a questionable asset account.

### 2.3.2. Professional commitment

Professional commitment refers to the strength of an individual’s identification with a profession (Mowday et al., 1979; Otley & Pierce, 1996). Individuals with high professional commitment are characterized as having a strong belief in and acceptance of the profession’s goals, a willingness to exert considerable effort on behalf of the profession, and a strong desire to maintain membership in the profession (Mowday et al.).

We posit that professional commitment will affect whether auditors will sign-off on materially misstated financial statements. Specifically, high professional commitment should orient auditors toward behavior that is in the public interest and away from behavior that has the potential to damage the profession. Alternatively, auditors with lower professional commitment should be more inclined to behave dysfunctionally (e.g. prioritizing client wishes over compliance with professional responsibilities).
Therefore, we predict that auditors with high professional commitment will be better able to resist acting inappropriately than will auditors with low professional commitment, regardless of the nature or amount of social influence pressure. We only forward one hypothesis (as opposed to two hypotheses for organizational commitment) because professional commitment transcends the accounting organization and therefore should not be subject to dilution or confusion because of social influence pressures generated from the firm. In particular, auditors with strong beliefs in and acceptance of the accounting profession, a willingness to exert the effort required to avoid unethical behavior, and a strong desire to work in the best interests of the profession should be less likely to sign-off on materially misstated financial statements. Stated formally (in alternative form):

H5: Auditors with higher professional commitment will sign-off on a lower balance for a questionable asset account than will auditors with lower professional commitment, regardless of the presence or absence of social influence pressure.

2.3.3. Moral development

The importance of evaluating moral development when considering auditors’ responses to ethical conflicts is well established in the literature (e.g., Armstrong, 1987; Ponemon 1992b, 1995; Ponemon & Gabhart, 1990; Tsui & Gul, 1996). According to Kohlberg’s (1984) Theory of Cognitive Moral Development, moral reasoning can be assessed using a three level framework comprising six stages. At the pre-conventional level (stages 1 and 2), individuals make decisions to avoid punishment or to serve self-interests. At these stages, the focus is on a short-term orientation where immediate costs and benefits of alternatives are prioritized over long-term potential consequences. In the case of signing-off on materially misstated financial statements when under social influence pressure, auditors at this level would sign-off if they believed it would serve them best as individuals.

At the conventional level (stages 3 and 4), individuals become aware of the impact of their actions on others. In an ethical dilemma situation, the focus of an individual shifts from a purely short-term, self-interested orientation to an orientation that considers the need to follow commonly accepted rules of good behavior. However, Ponemon (1992b, p. 177) noted that stage 3 auditors “would be greatly influenced by the existence of peer pressure (social conformity)” and justify their dysfunctional behavior on the basis of what others say or do. At stage 4, individuals may start to “feel a need to report honestly despite pressure from peers to do otherwise” (Ponemon, p. 177). Finally, at the post conventional level (stages 5 and 6), individuals focus on broader ethical principles to guide their behavior. At this high stages of moral development, auditors would be expected to avoid dysfunctional behaviors like signing off on materially misstated financial statements because they would perceive such actions to be violations of important rules that should not be broken.

The Defining Issues Test (DIT; Rest, 1979a) has emerged as a popular and reliable psychometric instrument for measuring individual moral development as detailed in Kohlberg’s six stage framework.9 For example, Tsui and Gul (1996) examined the joint effect of locus of control and moral development on auditors’ responses to inappropriate client pressure. Their results indicated that moral development significantly moderated the relationship between locus of control and auditor resistance to client pressure. Ponemon (1992b) found that auditors with lower levels of moral development tended to underreport chargeable time more than auditors with higher levels of moral development. Ponemon and Gabhart (1990) found that auditors’ moral development was significantly related to their independence judgments. In particular, participants with lower levels of moral development were more concerned with personal penalties (e.g., poor evaluation, loss of promotion) than affiliation (e.g., disappointing the

9 Rest (1979b) and Ponemon (1995) highlight the extensive and diverse validation of the DIT instrument.
client) in ethical dilemmas involving independence judgments.

Given the theory and findings, we posit that moral development will affect auditors’ willingness to accede to inappropriate social influence pressure generated from within the accounting firm. Specifically, we hypothesize that auditors at lower stages of moral development will be more susceptible to obedience and conformity pressure than will auditors at higher stages of development. In situations where the pressure relates to signing-off on materially misstated financial statements, we predict that auditors at lower levels of moral development will sign-off on a higher (i.e., more materially misstated) asset balance than will auditors at higher levels of development. Stated formally (in alternative form):

H6: Auditors with higher levels of moral development will sign-off on a lower balance for a questionable asset account than will auditors with lower levels of moral development.

3. Research and methodology

3.1. Participants and design

A sample of 171 audit staff members from one international accounting firm participated in a between-subjects experiment conducted at summer regional training sessions.10 To increase the external validity of our findings, we collected data in four different cities in different geographic regions within the USA. The participants represented at least 91 undergraduate institutions and 32 offices from 16 states. The age of the participants ranged from 22 to 42 (m = 25 years old). Most of the participants (72%) reported they had passed the CPA examination and 26% reported they had completed all of the requirements to be a CPA in their state. On average, the participants in our study had been with their firm between 11 and 12 months. Over half (52%) of the participants were female.

The participating audit firm had specific guidelines that professionals should follow when differences of opinion exist between audit team members. To ensure that all of our participants were aware of these procedures, they were given the policy to read before our experiment. We also provided an excerpt from SAS No. 22, Planning and Supervision, that discusses how to handle differences of opinion concerning accounting and auditing issues (AICPA, 1997). Although providing this material may have made the subjects more cognizant of procedures for handling disagreements, it controlled for an important potential knowledge difference among the subjects and made the experiment a more conservative test of pressure effects.

3.2. Research instrument

Given the potentially sensitive nature of the research problem and experimental materials, great care was taken in instrument development and administration. All research materials used in the project and the experimental procedures and design were approved by the Institutional Review Boards for the Protection of Human Subjects at the authors’ universities. We also enlisted the help of partners at the participating firm to assist with case and pressure treatment development. The participating partners evaluated the materials for appropriateness and realism, and approved all materials prior to administration.

The primary case scenario instructed the study participants to portray a senior accountant that recently had been assigned to a new client.11 The participants were told they were replacing another senior that had served the client for several years but who had been assigned other responsibilities. During the audit, the participants were unable to verify the existence and valuation of $2,500,000 of assets. After proposing an adjustment to write-off the assets in question, the client’s CFO strongly

10 The data in this study were collected subsequent to the data used in DeZoort and Lord (1994).

11 We asked the participants how realistic (unrealistic) they found the scenario using an eight-point Likert scale with endpoints labeled very unrealistic (1) and very realistic (8). Across all groups, the participants indicated that case realism was not a problem (M = 5.51, S.D. = 1.69).
disagreed with the auditor’s position and threatened to change auditors. The CFO suggested that the proper treatment was begin depreciation this year and to continue for the next 4 years using a straight-line method.\footnote{Both Accounting Research Bulletin (ARB) No. 43, Restatement and Revision of Accounting Research Bulletins, and FASB No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of highlight the client’s potential violation of generally accepted accounting principles (FASB, 1998).}

The participants were assigned randomly to one of three pressure treatment groups, designed to be the primary distinguishing feature of the analysis. Participants in the control group received no information beyond the background scenario described above. Participants in the conformity pressure group were told that the replaced senior suggested there should be no audit adjustment because there had been none the prior year, but provided no further rationale. Finally, participants in the obedience pressure group were told that the partner on the engagement, despite agreeing with the documented conclusions about the lack of support for these assets, instructed them to go along with the CFO’s demands to ensure retention of the client.\footnote{We took great care during case development and pretesting to ensure that the senior’s and partner’s instructions were clearly inappropriate, yet as realistic as possible to maintain experimental credibility. We had unanimous agreement from auditors in the participating firm that we achieved these objectives. Specifically, there was clear consensus that the instructions given lacked any reasonable justification, particularly given the client’s aggressive and antagonistic attitude toward the issue.}
The case scenario and the treatment modifications can be found in Appendix A.

The study’s primary dependent variable was measured by asking the participants to specify the dollar amount that they would sign-off on in the workpapers as the final *net* equipment balance for the assets originally recorded as “assets in process.”\footnote{DeZoort and Lord (1994) and other researchers chose to elicit probability or likelihood estimates from participants instead of specific point estimate. Solomon (1994) argued that a preferred approach is to elicit a specific decision as used in this research. We selected a specific point estimate to permit participants to take either anchor point or a point of compromise.} The participants also were asked to provide a brief explanation of their decision. This additional information provided an initial manipulation check to verify that the participants understood the task. In the social influence treatment groups, the explanations also provided some insight into the effect of the treatments on the participants’ judgments. To evaluate the possibility of a halo effect, we also asked the participants to indicate the amount they thought a majority of their colleagues would sign-off on in a similar situation. We were particularly interested in the possibility that, based on their experience, some participants might indicate that social influence pressure effects were a real problem for most auditors even though they would not admit to acceding to such pressure.

After evaluating the case background and responding to the primary dependent variable question, the participants completed the 15-item Organizational Commitment scale, and the 15-item Professional Commitment scale (Aranya & Ferris, 1984; Porter et al., 1974). Appendix B provides the items for both scales, which were assessed using 7-point Likert scales anchored with “Strongly Disagree” and “Strongly Agree”.\footnote{DeZoort and Lord (1994) and other researchers chose to elicit probability or likelihood estimates from participants instead of specific point estimate. Solomon (1994) argued that a preferred approach is to elicit a specific decision as used in this research. We selected a specific point estimate to permit participants to take either anchor point or a point of compromise.} Median splits were used to partition each of the groups into high and low groups for additional analysis\footnote{The correlation between the Organizational Commitment scale and the Professional Commitment scale was 0.493 \((P=0.000)\).} Cronbach’s alpha was used to provide a conservative, general measure of the internal consistency of the Organizational Commitment and Professional Commitment scales. The coefficient alpha of the Organizational Commitment scale was 0.87 and the coefficient alpha of the Professional Commitment scale was 0.89, indicating high reliability for both measures.

A series of manipulation check questions were designed to determine the pressure that each auditor perceived from the CFO, last year’s senior, and the partner on the engagement. An 8-point Likert scale measured these perceptions with the low endpoint labeled “No Pressure” and the high endpoint labeled “Significant Pressure”. As expected, the participants in each experimental group perceived
client pressure [i.e. control group $M$ (S.D.) = 6.45 (1.83); conformity group $M$ (S.D.) = 6.88 (1.39); obedience group $M$ (S.D.) = 6.77 (1.62)]. In addition, the conformity group participants perceived significantly more pressure from the senior auditor ($M$ = 5.34, S.D. = 1.78) than the control group ($M$ = 3.58, S.D. = 2.43) or the obedience pressure group ($M$ = 3.23, S.D. = 2.10). Finally, as expected, the participants in the obedience group perceived significantly more pressure from the partner ($M$ = 7.33, S.D. = 1.06) than the participants in the conformity ($M$ = 3.38; S.D. = 2.30) and control groups ($M$ = 3.84, S.D. = 2.54).

We also asked the participants if they had ever been in a situation where they felt pressured by a client or by someone within their firm to do something inappropriate. The results indicate that 19% of the participants had encountered such client pressure, while 22% of the participants had encountered social influence pressure from within the firm.\textsuperscript{17} Over half of the participants (55%) reported being familiar with a firm policy that could assist them in the situation presented in our experiment. Similarly, 57% of the participants reported familiarity with other authoritative guidance that could assist them in such pressure situations.

3.3. Administration procedures

The research process completed by the participants consisted of several tasks. Before arriving at the training session, the participants were asked to complete the three-story DIT (Rest, 1979a) to submit to the researchers after completing the primary experimental materials.\textsuperscript{18} The first two tasks in the experiment required the participants to read a case background and decide on an acceptable audited balance for an asset account. The case described an audit situation where the client desired to continue to record a material amount of fixed assets that could no longer be physically located or adequately documented. After making their audit decision regarding the asset account, the participants completed the organizational commitment scale, the professional commitment scale, and the manipulation check questions.

All participants were informed that their participation was voluntary and that they had the right to choose not to participate or to discontinue participation at any time. One auditor chose not to participate and data was not collected. The participants also were informed that the data from the study would be reported in summarized form only and that their anonymity was guaranteed. To protect their identity, the participants were asked to record a six-digit number from their DIT form to indicate their willingness to participate in the study. This procedure enabled us to match the DIT forms that were completed in advance with the experimental materials completed in the session, without receiving any identifying information from the participants. It also required the participants to execute a specific action to indicate their willingness to participate voluntarily in the experiment. No other incentives were provided to the subjects for their participation.

After the collection of all materials, the researcher who administered the experiment debriefed the participants. The participants were informed of the three versions of the instruments and the purpose behind the DIT, professional commitment scale, and organizational commitment scale. Ample opportunity was provided to ask questions, and we provided contact information in case there were subsequent questions.

4. Results

4.1. Descriptive results

The descriptive results for the pressure treatments, organizational commitment, professional

\textsuperscript{17} The primary social influence pressure tests also were run using the participants’ self-reported experience with social influence pressure as covariates. In particular, we evaluated whether the responses to the experimental materials were influenced by participants’ experience with social influence pressure in practice. The results indicated that the self-reported measures did not significantly affect the primary results of the study. We also found that experience with social influence pressure was moderately correlated with perceived task realism ($r = 0.267; P = 0.000$).

\textsuperscript{18} The DIT was administered before the other materials to minimize time demands and any potential biasing of responses. Specifically, we did not want to sensitize the participants to moral issues immediately prior to administering the ethical dilemma.
commitment, and moral development groups are presented in Tables 1 and 2. Table 1 provides the means and standard deviations for the three pressure groups. Table 2 provides the descriptive statistics for the study’s individual variables and details the median splits used. A comparison of our findings with findings in the extant literature (e.g. Lampe & Finn, 1992; Ponemon, 1992b, 1995) suggests our results and splits are comparable with those of prior studies.

We also evaluated frequency data to evaluate whether the participants perceived the client’s proposed treatment of the asset account was inappropriate. The results indicate that 76% (124/164) of the participants assigned a value of $0, providing some evidence that they perceived the client’s proposed treatment as a violation of generally accepted accounting principles. Only 21 participants (13%) assigned a value of $2 million, while 19 participants (12%) assigned a compromise value between $0 and $2 million.

A closer inspection of the responses by pressure treatment group reveals that only one participant (2%) in the control group and two participants (4%) in the conformity pressure group assigned the client’s desired value of $2 million, providing further evidence that the client’s desired accounting was inappropriate. In contrast, 18 participants (35%) in the obedience pressure group indicated they would sign-off on a $2 million balance.

Finally, we asked the participants if the financial statements would be materially misstated if the asset balance in question remained at $2 million. The results overwhelming indicated that the participants across pressure groups and across response ($) amount thought that a $2 million dollar balance was inappropriate. Specifically, the mean for the material misstatement question was at least 6.8 for all treatment groups (on an 8-point scale anchored 1 = “Definitely Would Not Be Materially Misstated” and 8 = “Definitely Would be Materially Misstated”) with no significant differences (P > 0.50) among acquiescers (i.e. assigning $2 million) and nonacquiescers. We also analyzed the question with a three-way partition including nonacquiescers (sign-off on a $0 balance), acquiescers (sign-off on a $2 million balance), and compromisers (sign-off on a balance between $0 and $2 million). Similar insignificant results emerged here as well (P > 0.48 for all comparisons). Finally, the results indicated that over two-thirds (69%) of the acquiescers indicated that a $2 million balance would make the financial statements materially misstated.

4.2. Results of hypothesis testing

4.2.1. Social influence pressure effects

Our primary hypotheses suggested that auditors under social influence pressure would be more

Table 1
Descriptive statistics: pressure effects on acceptable account balance

<table>
<thead>
<tr>
<th>Pressure treatment group</th>
<th>n</th>
<th>Mean ($)</th>
<th>S.D. ($)</th>
<th>% Participants assigning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>Control (no pressure)</td>
<td>57</td>
<td>196,053</td>
<td>459,566</td>
<td>79%</td>
</tr>
<tr>
<td>Senior (conformity pressure)</td>
<td>55</td>
<td>163,636</td>
<td>469,481</td>
<td>87%</td>
</tr>
<tr>
<td>Partner (obedience pressure)</td>
<td>52</td>
<td>759,615</td>
<td>962,484</td>
<td>59%</td>
</tr>
</tbody>
</table>

19 Correlation tests for the moderator variables indicated that moral development was not significantly correlated with either organizational commitment (r = -0.008; P = 0.92) or professional commitment (r = -0.082; P = 0.29). A significant positive correlation (r = 0.53; P = 0.0001) was found between organizational commitment and professional commitment.

20 We also analyzed the association between account balance and materiality perceptions. The variables were negatively correlated at -0.288 (P-value = 0.0002), suggesting that higher perceptions of materiality were associated with less acquiescence.
Table 2
Organizational commitment (OC)*

<table>
<thead>
<tr>
<th></th>
<th>Control group</th>
<th>Conformity pressure</th>
<th>Obedience pressure</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organizational commitment (OC)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low OC</td>
<td>Mean (S.D.)</td>
<td>4.59 (0.57)</td>
<td>4.51 (0.52)</td>
<td>4.53 (0.59)</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>4.80</td>
<td>4.53</td>
<td>4.80</td>
</tr>
<tr>
<td></td>
<td>n</td>
<td>31</td>
<td>29</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Split value</td>
<td>5.20</td>
<td>5.20</td>
<td>5.20</td>
</tr>
<tr>
<td>High OC</td>
<td>Mean (S.D.)</td>
<td>5.92 (0.48)</td>
<td>5.91 (.38)</td>
<td>5.78 (.35)</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>6</td>
<td>5.90</td>
<td>5.73</td>
</tr>
<tr>
<td></td>
<td>n</td>
<td>28</td>
<td>28</td>
<td>31</td>
</tr>
<tr>
<td>Overall</td>
<td>Mean (S.D.)</td>
<td>5.22 (0.85)</td>
<td>5.19 (0.84)</td>
<td>5.20 (0.78)</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>5.20</td>
<td>5.20</td>
<td>5.27</td>
</tr>
<tr>
<td></td>
<td>n</td>
<td>59</td>
<td>57</td>
<td>58</td>
</tr>
</tbody>
</table>

| **Professional commitment (PC)** |       |                     |                   |         |
| Low PC                     | Mean (S.D.) | 4.14 (0.73)         | 4.57 (0.58)       | 4.40 (0.61) | 4.36 (0.67) |
|                          | Median      | 4.27                | 4.73              | 4.53     | 4.53       |
|                          | n           | 33                  | 27                | 28       | 88         |
|                          | Split value | 5.07                | 5.13              | 5.13     | 5.13       |
| High PC                   | Mean (S.D.) | 5.91 (0.49)         | 5.83 (.47)        | 5.63 (.39) | 5.78 (.46) |
|                          | Median      | 6.00                | 5.87              | 5.53     | 5.73       |
|                          | n           | 26                  | 31                | 30       | 87         |
| Overall                  | Mean (S.D.) | 4.92 (1.09)         | 5.25 (0.82)       | 5.03 (0.80) | 5.07 (0.92) |
|                          | Median      | 4.93                | 5.20              | 5.13     | 5.13       |
|                          | n           | 59                  | 58                | 58       | 175        |

| **Moral development (DIT P-Score)** |       |                     |                   |         |
| Low DIT                    | Mean (S.D.) | 26.43 (9.86)        | 24.95 (9.20)      | 23.24 (9.65) | 24.85 (9.54) |
|                           | Median      | 30                  | 25.95             | 23.30    | 26.70      |
|                           | n           | 27                  | 28                | 28       | 83         |
|                           | Split value | 36.70               | 36.70             | 36.70    | 36.70      |
| High DIT                  | Mean (S.D.) | 52.85 (12.09)       | 51.26 (13.69)     | 55.78 (11.50) | 53.28 (12.45) |
|                           | Median      | 50                  | 46.79             | 53.30    | 50         |
|                           | n           | 31                  | 29                | 29       | 89         |
| Overall                  | Mean (S.D.) | 40.55 (17.27)       | 38.33 (17.62)     | 39.79 (19.50) | 39.56 (18.07) |
|                           | Median      | 40                  | 40                | 43.30    | 40         |
|                           | n           | 58                  | 57                | 57       | 172        |

likely to exhibit dysfunctional audit behavior by signing-off on materially misstated financial statements than auditors who were not under such pressure. Hypothesis 1 predicted that obedience pressure from superiors within the firm would influence auditors’ judgments. Hypothesis 2 predicted that conformity pressure from peers would affect auditors’ judgments. Hypothesis 3 specified that obedience pressure should have more influence on auditors’ judgments than conformity pressure.

The testing of these hypotheses required the data to be organized by social influence pressure treatment group. Our primary dependent variable was the net equipment balance the participants would sign-off on for the asset account in question. An analysis of variance (ANOVA) was run to examine the effects of the social influence pressure on the auditors’ decisions.\(^{21}\) The results in

\(^{21}\) We also ran a regression analysis that simultaneously considered our independent variables, with organizational commitment, professional commitment, and DIT scores run as continuous variables. The regression model was significant \((P=0.05)\) and produced the same results found using the ANOVA-based approach (with median splits) reported in the paper. Specifically, organizational commitment was the only significant individual variable \((P=0.000)\). The variance inflation factors from the model were all less than 1.4, indicating that collinearity was not a problem.
Table 3 indicate that the social influence pressure treatments did create a significant difference in the estimates of the account balances ($F = 13.56; P < 0.0001$). In particular, tests of contrasts reveal that the obedience pressure groups’ mean account balance ($759,615) was significantly higher than the mean balances for the control group ($196,053; F = 4.39; P < 0.0001$) and the conformity pressure group ($163,636; F = 4.20; P < 0.0001$). Thus, hypothesis 1 and hypothesis 3 were supported by our results. However, the hypothesis 2 prediction for conformity pressure was not supported ($F = 1.04; P = 0.44$; Table 3).\(^{22,23}\)

The results for the supplemental questions about colleagues’ tendencies to submit to inappropriate social influence pressure provide some evidence of a halo effect for the primary results. As noted earlier, we asked the participants to indicate the amount they thought their colleagues would sign-off on in a similar situation. The supplemental findings reveal that the means for the control group ($364,732), the conformity pressure group ($467,593), and the obedience pressure group ($1,481,818) were all significantly higher ($P < 0.05$ in all cases) than the means for the primary questions reflecting the participants’ decisions. The results of the tests of contrasts for the supplemental questions mirrored the primary contrast results for the participants’ decisions (i.e. obedience > control; obedience > conformity), although the conformity pressure group mean was significantly higher than the control group mean at a marginal level ($P = 0.07$).

### 4.2.2. Organizational commitment

The organizational commitment (OC) results are consistent with predictions. Specifically, H4a predicted that OC would affect the account balance value that auditors would be willing to sign-off on materially misstated financial statements, without considering social influence pressure. The one-way ANOVA results for the control group in Table 4 indicate that the participants with high OC ($M = 20,370$) signed off on a significantly lower balance ($F = 7.36; P = 0.005$) for the questionable assets than the low OC participants ($M = 314,655$).\(^{24}\) Thus, organizational commitment moderated the effects of the inappropriate client pressure.

H4b predicted that social influence pressure would eliminate any effects related to the organizational commitment of the participants. In particular, we posited that obedience and conformity pressure generated from within the accounting firm would diminish the positive effects of OC for professionals who are loyal to their firm, yet interested in positive feedback from colleagues and being perceived as a team player. The findings in Table 4 also support this hypothesis. For

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\(^{22}\) We carefully considered whether our sample/cell sizes created a lack of statistical power that affected our reported results. Mardia (1971) showed that with unequal sample sizes and less than four dependent variables, samples sizes of at least 20 in the smallest cell should produce results that are robust to normality violations. Our supplemental analysis (including sample doubling and nonparametric testing) produced results similar to those reported in the paper and suggest that the insignificant findings reflect small effect sizes rather than sample size.

\(^{23}\) To assess whether the differences across the experimental conditions were due to differential beliefs regarding materiality, we evaluated an (analysis of covariance) ANCOVA using the participants’ beliefs about material misstatement for the asset balance as a covariate. The overall ANCOVA and post hoc contrasts produced the same significant results as the ANOVA-based analysis, providing evidence that the differences among pressure groups are not due to differential beliefs regarding materiality.

\(^{24}\) For exploratory purposes, we also ran a 4-way ANOVA with pressure groups and the three individual variables to see if significant interactions emerged. The results of the supplemental analysis revealed no significant higher order interactions among the variables.
Table 4
Results of hypothesis testing: organizational commitment (OC)*

<table>
<thead>
<tr>
<th>Group</th>
<th>Control</th>
<th>Conformity</th>
<th>Obedience</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low OC</td>
<td>Mean ($)</td>
<td>314,655</td>
<td>153,846</td>
<td>796,296</td>
</tr>
<tr>
<td></td>
<td>Standard deviation ($)</td>
<td>555,633</td>
<td>464,096</td>
<td>1,002,490</td>
</tr>
<tr>
<td>n</td>
<td>29</td>
<td>26</td>
<td>27</td>
<td>82</td>
</tr>
<tr>
<td>High OC</td>
<td>Mean ($)</td>
<td>20,370</td>
<td>178,571</td>
<td>720,000</td>
</tr>
<tr>
<td></td>
<td>Standard deviation ($)</td>
<td>96,336</td>
<td>489,979</td>
<td>936,305</td>
</tr>
<tr>
<td>n</td>
<td>27</td>
<td>28</td>
<td>25</td>
<td>80</td>
</tr>
<tr>
<td>One-way ANOVA</td>
<td>F</td>
<td>7.36</td>
<td>0.04</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td>P-value</td>
<td>0.005*</td>
<td>0.85</td>
<td>0.78</td>
</tr>
</tbody>
</table>

* “*” denotes a one-tail P-value, reflecting the directional prediction in H4a. All other P-values are two-tailed to reflect the non-directional H4b. The median value in all cells is zero. The cell size differences result from omitting participants who provided incomplete or unreadable responses.

both conformity pressure (F = 0.04; P = 0.85) and obedience pressure (F = 0.08; P = 0.78), no significant difference was found between account balances for high OC participants (conformity M = $178,571; obedience M = $720,000) and low OC participants (conformity M = $153,846; obedience M = $796,296).

4.2.3. Professional commitment

The H5 results for professional commitment (PC) are somewhat mixed. We predicted that, unlike organizational commitment, auditors with a high commitment to their profession would be better able to resist acting inappropriately than would auditors with low PC, regardless of the amount of social influence pressure. The control group findings in Table 5 reveal marginally significant results (F = 1.84; P = 0.09), indicating the participants with high PC signed off on lower account balances (M = $87,000) than the participants with low PC (M = $241,936) when no social influence pressure was applied. However, the positive PC effect disappeared when the social influence pressure treatments were introduced. Specifically, the difference between the conformity pressure group means was actually opposite of prediction, although not at a statistically significant level (F = 1.25; P = 0.14). The obedience pressure group means were in the predicted directions, but also not at a statistically significant level (F = 0.62; P = 0.22).

4.2.4. Moral development

The moral development results do not support our hypothesis 6 prediction. We predicted that participants with high moral development (high DIT P score) would be less likely to sign off on materially misstated financial statements than participants with low moral development (low DIT P score), regardless of social influence pressure. The results in Table 6 indicate that moral development did not significantly affect the participants’ acceptable account balances in the predicted way. For example, the findings reveal that, in the absence of social influence pressure, there was no significant difference (F = 0.16; P = 0.35) between the high DIT participants (M = $177,419) and the low DIT participants (M = $227,000). The results for the social influence pressure groups are similar, with no significant predicted differences found.25

5. Discussion and conclusions

The results of this study provided mixed results for the social influence pressure treatments. A
strong obedience pressure effect emerged, with superiors’ instructions significantly increasing auditors’ willingness to sign-off on an account balance that was materially misstated. However, the predicted conformity pressure effect did not occur. The findings also supported the predictions for organizational commitment, with positive organizational commitment effects disappearing with the emergence of social influence pressure from within the audit organization. The professional commitment results were similar to the organizational commitment results. In particular, a positive professional commitment effect appeared for the control group (i.e. client pressure only), although the effect was only marginally significant. However, similar to organizational commitment but contrary to our predictions, the effect disappeared when obedience and conformity pressure were applied. The predicted effect for moral development did not emerge for any of the experimental conditions.

A number of important research and practical implications emerge from these findings. From a research perspective, this study extends the literature on organizational and environmental pressures by simultaneously considering two social influence pressures that have the potential to diminish audit quality and create unethical behavior. The findings that auditors are susceptible to social influence pressure, even in situations where professionals know such pressure can lead to material misstatement and audit failures, is
important for understanding and managing contemporary professionals’ work environment. In addition, the significant obedience pressure effects in this study extend the DeZoort and Lord (1994) results beyond simple likelihood measures to specific outcome measures, as specifically highlighted by Solomon (1994). This study used a more detailed scenario to have auditors document an actual account balance they would sign-off on in the audit of inventory.

This study also examines organizational commitment, professional commitment, and moral development as three individual variables that could affect auditors’ responses to inappropriate pressure. Previously, only authoritarianism (individuals’ attitudes toward authority) had been considered as a potential moderator of inappropriate intentions resulting from obedience pressure. In the control group, high organizational commitment was an effective control against the adverse effects of client pressure. However, the results also suggest that social influence pressures from within the firm are potential confounds when it comes to desirable organizational commitment effects. In this sense, future research should continue to explore the possibility that positive organizational commitment effects are conditional when it comes to situations involving social influence pressure. We believe the same can be said for professional commitment, even though the results were marginally significant from a statistical standpoint. In addition, future research should expand consideration of alternative domains and theories to capture specific interactions that may exist among social influence pressures and individual variables.

Interestingly, moral development as measured by the DIT did not affect responses to social influence pressure as predicted in this study. We are unsure about whether this finding is anomalous, diagnostic, or indicative of some other problem with the materials used. For example, we acknowledge the possibility that a more refined separation of the participants into Kohlberg’s moral development stages (i.e. pre-conventional, conventional, post-conventional) might be needed to measure the effects of moral development in situations such as those used in this experiment.

This possibility is consistent with Ponemon’s (1992b) suggestion that stage 3 auditors might be particularly susceptible to conformity pressure while stage 4 auditors might be resistant. The intuitive appeal of moral reasoning theory and the extensive validation of the DIT strongly suggest that additional work is needed to understand the relation between moral development and responses to dysfunctional social influence pressures. Future research also should explore alternative methods (e.g., Multidimensional Ethics Scale) for explaining (un)ethical behavior to provide a more complete understanding of the problem.

From a practical perspective, the findings validate concerns about the existence and consequences of dysfunctional social influence pressures in audit practice. Regarding the existence of these pressures, the study’s participants made it clear that social influence pressures (e.g. inappropriate conformity and obedience) are reasonably common in the audit domain. In particular, we emphasize the finding that almost one-quarter of the auditors in the study admitted being subjected to inappropriate social influence pressure by someone from within their firm. In this context, the results suggest that social influence pressures from within the firm are at least as common as client pressure, a construct that has received considerably more attention in the practice and research literatures. While these percentages represent a minority of the auditor participants, we also consider this result significant from a practical standpoint given the potential consequences of unethical behavior and audit failures. In addition, it is important to note that these frequency perceptions were provided by staff auditors with limited practical experience. Empirical (e.g., DeZoort & Lord, 1994; SEC, 1993) and anecdotal evidence suggest that such pressures are relatively common among professionals at all hierarchical levels and across accounting firms of all sizes.

This study primarily focused on the consequences of dysfunctional social influence pressures in the audit practice. Our data showed that more than 20% of the participants were willing to sign off on amounts above $500,000 (or an error greater than 5% of net income). While most audi-
tors seemed inclined to do the “right” thing in the case, social influence pressure apparently influenced a number of auditors to sign-off on amounts that would render the financial statements materially misstated. Interestingly, we also found that a number of auditors expressed some desire to reach a compromise position to deal with the pressure imposed, consistent with McNair’s (1991) “zone of compromise” where auditors deal with conflicting goals by trading off choices for a middle position. Although future research is needed to further explore the specific costs and benefits of such compromises, we assert that any dysfunctional effects of social influence pressure should be recognized because they represent points of vulnerability in a litigious environment for auditors, audit firms, and the profession.

From a quality control standpoint, the results have implications for professional education, training, and support systems within the accounting firm. Specifically, the findings are consistent with trends toward increased ethics training for auditors, particularly at lower levels, to raise the awareness of these types of issues, identify relevant procedures for coping, and to encourage ethical behavior. We suggest that firms continue to develop rigorous ethical training modules (for professionals at all levels) that emphasize professional standards and firm policies for dealing with inappropriate social influence pressures. Although many accounting firms have policies designed for such matters, the impetus on firms is to create an environment where professionals are motivated to follow policies for documenting and pursuing resolution to disagreements.

Several limitations emerge when evaluating the study’s results. First, our tests of social influence pressure effects were intentionally conservative, possibly contributing to the lack of significance for the conformity pressure variable. Although our pressure treatments were explicit and acute, we used a hypothetical scenario where social influence pressure was applied with a short paragraph within the case. The pressure to support a peer (conformity) or to obey a superior (obedience) would likely be much stronger in practice than in our experimental materials. For example, auditors may face considerable pressure to work on audits that produce no client disputes. Such “environmental” conformity pressure is one of many implicit and chronic pressure types (e.g., role ambiguity, perceived environmental uncertainty) that can be very influential (DeZoort & Lord, 1997).

Second, our participants represented auditors with a limited age and experience range. We believe that younger and/or newer professionals are highly susceptible to social influence pressures because of their interest in socialization within the firm and their desire to “fit in” and to “not make waves”. However, future research should empirically investigate the effects of age and experience on auditors’ susceptibility to social influence pressures.

Third, the findings are limited to the extent that we imposed an artificial setting on our participants. We acknowledge the possibility that, despite our efforts with the participating firm to make the scenario as realistic as possible, the artificiality of the process could bias the outcome. However, our developmental work with audit professionals, pretesting, debriefing, and examination of participant comments suggested artificiality was not a problem.

Finally, we provided the participants with advance reading material that included their firm’s guidelines for resolving disagreements among personnel. This advance material may have created a bias against the rejection of the null hypothesis because of a heightened awareness of the participants’ responsibility to support only fairly stated financial statement balances. Again, we chose to take a very conservative approach in our study to protect our participants and strengthen the impact of significant findings. However, our conservatism might have created the insignificant results for the conformity pressure treatment. Future research should apply such pressure in alternative strengths and forms to better assess auditor susceptibility to such social influence pressures.

Despite the limitations, this study suggests that social influence pressures can have important negative consequences for auditors and the quality of audits. Collectively, these findings contribute to current understanding of how organizational and environmental pressures affect auditors’ decisions.
in dysfunctional ways. The results also suggest that considerations of negative influence pressures on auditors should extend beyond a focus on the client alone and include the possibility of confounding influence pressures from within the accounting firm. Such inquiry is justified because it is wholly consistent with the suggestion that “the meaning of being a professional is primarily bound up with a series of ways of self-conduct rather than with issues of technical competence and accreditation” (Grey, 1998, p. 584).

Acknowledgements

We are grateful for comments and suggestions from our two anonymous reviewers, Anthony Hopwood, Holmes Finch, Adrian Harrell, Larry Ponemon, David Sharp, Carolyn Windsor, and workshop participants at the University of Kentucky, the University of South Carolina, and the 1999 American Accounting Association National Meeting. We also appreciate the statistical assistance provided by Teri Hansen, Maria Hong, and the Statistical Consulting Center at Bowling Green State University.

Appendix A. Experimental case and sample treatment

Gregg Technologies, Inc.

Scenario: You are a CPA who is a senior with a large accounting firm and your career has been advancing rapidly. You expect to have an excellent chance of being promoted to manager next year which would be at least 1 year ahead of your peers. To replace another senior that has been assigned to a new engagement, you have been assigned the fieldwork responsibilities for the 1995 audit of Gregg Technologies, Inc. (“Gregg”) a publicly-held manufacturer of scientific computers. You have not worked previously on Gregg’s audit team. Although it may seem unusual, because of your experience and ability you are now the highest level nonpartner assigned to the Gregg audit. Your duties include planning and coordinating the audit, supervising the audit staff, and communicating with Gregg management.

During the 1995 audit you attempt to verify the existence and valuation of $2,500,000 of assets described on Gregg’s books as “Assets in Process.” The Assets in Process account is used by Gregg to group together the costs of functionally related equipment acquired by Gregg until all the fixed assets are acquired. It is Gregg’s practice to transfer the accumulated cost of the equipment to a fixed asset account, “Equipment,” and commence recording depreciation on the equipment only when it is placed in service.

During the audit you are told by Gregg production engineers that the equipment (Assets in Process) in question had been purchased and placed in service at the beginning of 1991, and that the equipment had a 5 year useful life. However, you find that no depreciation has been recorded during the 5 years since the acquisition and placement of the equipment. Although workpapers from prior audits reflected the existence and cost of the assets, when you attempt to verify the existence and cost of the equipment, Gregg employees are unable to describe the equipment in detail or to provide you with invoices supporting the original purchase and cost of the equipment. Moreover, Gregg management is unable to physically locate the equipment in question. As a result, you conclude and document in the workpapers that the equipment in question cannot be physically located, is not identifiable from Gregg’s books and records, and should have already been fully depreciated if, in fact, the equipment exists. You proposed an audit adjustment to write-off the Assets in Process in question as an expense in the amount of $2,500,000. Planning materiality for the audit was 5% of income. Gregg’s unadjusted net income after all other adjustments, but before considering the assets currently recorded in the Assets in Process account, is $10,000,000. Thus, the proposed adjustment would reduce Gregg’s income from $10,000,000 to $7,500,000. Gregg’s CFO strongly disagrees with your recommendation to write-off the Assets in Process in question. The CFO has attacked the competence of you and your staff, and threatened to
replace your firm as Gregg’s auditor. The CFO insists that the equipment is there but cannot be separately identified because it was incorporated into an existing production line in 1993 when the company moved to its current production facility. Gregg’s CFO proposes to shift the Assets in Process balance of $2,500,000 to the Equipment account and to record $500,000 of depreciation expense starting in 1995, with the remaining balance depreciated straight-line through the year 1999.

(Conformity pressure group only) The senior who was responsible for Gregg’s audit last year is a colleague with whom you started your career at the firm. You decided to call this peer to ask about the equipment balance because this person knows the client well. Despite agreeing with the audit evidence and the documented conclusions of you and your staff, the senior suggested the circumstances were ambiguous enough to justify a compromise given the concern about losing the client. You are also told that the balance sitting in Assets in Process couldn’t be verified last year, but that the client was adamant about its existence, and that it was finally considered immaterial to income. The senior also expressed concern about the career implications associated with being the one who contributed to the loss of Gregg as a client. Ultimately, the senior suggested it would be best for the firm to accept the CFO’s proposal to shift the Assets in Process balance to Equipment at $2,500,000 (cost) with $500,000 depreciation expense recorded for 1995 and an agreement that Gregg depreciate the remainder of the asset over the next four years. Consequently, the partner instructs you to sign-off on workpapers reflecting a 1995 net Equipment balance of $2,000,000.

Instructions: You may look back to any of the preceding pages to answer the following question.

Without considering tax effects, what net Equipment balance for the assets originally recorded as “Assets in Process” would you sign-off on in the 1995 workpapers (i.e. net of 1995 depreciation expense or other write-offs)?

$____________________

Appendix B. Survey instruments

Organizational commitment:

1. I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful.
2. I talk up this organization to my friends as a great organization to work for.
3. I feel very little loyalty to this organization.
4. I would accept almost any type of job assignment in order to keep working for this organization.
5. I find that my values and the organization’s values are similar.
6. I am proud to tell others that I am part of this organization.
7. I could just as well be working for a different organization as long as the type of work was similar.
8. This organization really inspires the very best in me in the way of job performance.
9. It would take very little change in my present circumstances to cause me to leave this organization.
10. I am extremely glad that I chose this organization to work for, over others I was considering at the time I joined.
11. There is not too much to be gained by sticking with this organization indefinitely.
12. Often, I find it difficult to agree with this organization’s policies on important matters relating to its employees.
13. I really care about the fate of this organization.
14. For me, this is the best of all possible organizations for which to work.
15. Deciding to work for this organization was a definite mistake on my part.

*Professional commitment:*

1. I am willing to put in a great deal of effort beyond that normally expected in order to help this profession be successful.
2. I talk up this profession to my friends as a great profession to work for.
3. I feel very little loyalty to this profession.
4. I would accept almost any type of job assignment in order to keep working for this profession.
5. I find that my values and the profession’s values are similar.
6. I am proud to tell others that I am part of this profession.
7. I could just as well be working for a different profession as long as the type of work was similar.
8. This profession really inspires the very best in me in the way of job performance.
9. It would take very little change in my present circumstances to cause me to leave this profession.
10. I am extremely glad that I chose this profession to work for, over others I was considering at the time I joined.
11. There is not too much to be gained by sticking with this profession indefinitely.
12. Often, I find it difficult to agree with this profession’s policies on important matters relating to its employees.
13. I really care about the fate of this profession.
14. For me, this is the best of all possible professions for which to work.
15. Deciding to work for this profession was a definite mistake on my part.

Note: All items were measured with 7-point Likert scales anchored with “Strongly Disagree” and “Strongly Agree”.

**References**


