If You Want My Advice: Status Motives and Audit Consultations about Accounting Estimates

W. Robert Knechel, *University of Florida*
Justin Leiby, *University of Georgia*
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Overview

Experimental participants (n = 102) provided a recommendation to a hypothetical colleague on the discount rate estimate used by management to calculate the fair value of an asset, and we held the colleague's beliefs about the best estimate constant at 13.2%. Participants also provided a recommendation on the range of acceptable discount rates that management could use, doing so by providing an upper bound and lower bound of reasonable discount rates.

We provide Systat steps below in bold Calibri.

Computation of Dependent Variables

Contrariness: We calculated contrariness by subtracting the colleague's estimate (held constant at 13.2%) from participants' recommended discount rate estimate. That is, contrariness is the signed difference between participants' discount rate and the rate of the advice-seeker. Higher values indicate more contrariness.

Precision: We calculated precision by first calculating a reasonable range size for each participant (i.e., upper bound minus lower bound). We then identified the largest range size value in our sample (7.00 points). To calculate a measure in which higher values translated into greater precision, we subtract the largest range size (7.00 points) from each observation and then use the absolute value of the difference as our measure of precision. Thus, the largest range size has precision of 0. Higher values indicate more precision.

Computation of contrariness:
Data>>Transform>>Let>> CONTRARY = RATE – 13.2

Computation of precision:
Data>>Transform>>Let>> PRECISION = ABS(RANGE_SIZE – 7)

Manipulation or Measurement of Independent Variables

Status motives: We manipulated status motives between-participants as either "Active" or "Not Active." To do so, we randomly assigned each participant to receive one of two primes at the beginning of the experiment. Each prime was roughly 600 words long. In the "Not Active" condition, participants read a prime that describes looking for and finding lost concert tickets. In the "Active" condition, participants read a prime that describes starting a prestigious new job and competing with co-workers.

Decision authority: We manipulated decision authority between-participants as either "High" or "Low." To do so, we randomly assigned each participant to receive one of two sets of instructions from a hypothetical engagement partner at the beginning of the discount rate assessment task.

In the "Low" decision authority condition, the instructions were:

> The partner suggested that your colleague should "pick your brain" on the issue but the colleague is expected to resolve the issue on his own.

In the "High" decision authority condition, the instructions were:

> The partner has directed your colleague to solicit your input and to take and document actions as a result of the advice you provide.

Specialized knowledge: We measured participants' self-reported knowledge of securitizations on a 0 ("very low") to 100 ("very high") scale. We classified participants whose knowledge was above the sample median as having "Higher" specialized knowledge, and those below the median as having "Lower" specialized knowledge.

Descriptive Statistics (Table 1, Panel A):

Analyze>>Basic Statistics

Selected Variable(s): CONTRARY PRECISION

N MEAN SD

>>Set Conditions

Selected Variable(s): STATUS KNOW

Descriptive Statistics (Table 1, Panel B):

Analyze>>Basic Statistics

Selected Variable(s): CONTRARY PRECISION

N MEAN SD

>>Set Conditions

Selected Variable(s): STATUS AUTH

Data Analysis

We first run ANOVAs using SYSTAT for each of our primary dependent measures (contrariness and precision). We first run a 2 (Motive: status active, status not active) X 2 (Specialized knowledge: higher, lower) X 2 (Decision authority: high, low) ANOVA with contrariness as the dependent measure. Second, we run the same ANOVA with precision as the dependent measure.

The ANOVA results are not tabulated in the paper, but we tabulate them here:

Analysis of Variance (ANOVA) for Contrariness

Source	Sum of Squares	df	Mean Square	F	p
Status	3.08	1	3.08	1.88	0.174
Decision Authority	< 0.01	1	< 0.01	< 0.01	0.965
Knowledge	2.13	1	2.13	1.30	0.258
Status by Knowledge	12.66	1	12.66	7.72	0.007
Status by Decision Authority	2.74	1	2.74	1.67	0.199
Decision Authority by Knowledge	1.71	1	1.71	1.71	0.310
Status by Decision Authority by Knowledge	1.95	1	1.95	1.19	0.278
Error	154.2	94	1.64		

Tests of contrariness (H1a and H2a, Table 2):

Analyze>>Analysis of Variance>>Estimate Model

Dependent(s): CONTRARY

Factor(s): STATUS AUTH KNOW

Analyze>>Analysis of Variance>>Hypothesis Test>>Specify

For H1a: **3*STATUS[1]KNOW[0]-STATUS[1]KNOW[1]-STATUS[0]KNOW[0]-STATUS[0]KNOW[1]**

For H2a: **3*STATUS[1]AUTH[0]-STATUS[1]AUTH[1]-STATUS[0]AUTH[0]-STATUS[0]AUTH[1]**

Partial effects tests for H1a:

Analyze>>Analysis of Variance>>Hypothesis Test>>Specify

STATUS[1]KNOW[0]-STATUS[1]KNOW[1]

STATUS[1]KNOW[0]-STATUS[0]KNOW[1]

STATUS[1]KNOW[0]-STATUS[0]KNOW[0]

Partial effects tests for H2a:

Analyze>>Analysis of Variance>>Hypothesis Test>>Specify

STATUS[1]AUTH[0]-STATUS[1]AUTH[1]

STATUS[1]AUTH[0]-STATUS[0]AUTH[1]

STATUS[1]AUTH[0]-STATUS[0]AUTH[0]

Analysis of Variance (ANOVA) for Precision

Source	Sum of Squares	df	Mean Square	F	p
Status	3.67	1	3.67	1.88	0.174
Decision Authority	8.87	1	8.87	4.53	0.036
Knowledge	1.13	1	1.13	0.58	0.450
Status by Knowledge	15.17	1	15.17	7.75	0.006
Status by Decision Authority	0.29	1	0.29	0.15	0.702
Decision Authority by Knowledge	2.27	1	2.27	1.16	0.284
Status by Decision Authority by Knowledge	2.81	1	2.81	1.43	0.234
Error	183.94	94	1.96		

Tests of precision (H1b and H2b, Table 2):

Analyze>>Analysis of Variance>>Estimate Model

Dependent(s): PRECISION

Factor(s): STATUS AUTH KNOW

Analyze>>Analysis of Variance>>Hypothesis Test>>Specify

For H1b: **3*STATUS[1]KNOW[1]-STATUS[1]KNOW[0]-STATUS[0]KNOW[0]-STATUS[0]KNOW[1]**

For H2b: **3*STATUS[1]AUTH[0]-STATUS[1]AUTH[1]-STATUS[0]AUTH[0]-STATUS[0]AUTH[1]**

Partial effects tests for H1b:

Analyze>>Analysis of Variance>>Hypothesis Test>>Specify

STATUS[1]KNOW[1]-STATUS[1]KNOW[0]

STATUS[1]KNOW[1]-STATUS[0]KNOW[1]

STATUS[1]KNOW[1]-STATUS[0]KNOW[0]

Partial effects tests for H2b:

Analyze>>Analysis of Variance>>Hypothesis Test>>Specify

STATUS[1]AUTH[0]-STATUS[1]AUTH[1]

STATUS[1]AUTH[0]-STATUS[0]AUTH[1]

STATUS[1]AUTH[0]-STATUS[0]AUTH[0]

Hypothesis Tests

We test our hypotheses using the following linear contrasts:

- For H1a (Joint Effect of Status Motives and Specialized Knowledge on Contrariness), we assign values of
  - +3 for Active Status Motives, Lower Specialized Knowledge
  - -1 for Active Status Motives, Higher Specialized Knowledge
  - -1 for Not Active Status Motives, Lower Specialized Knowledge
  - -1 for Not Active Status Motives, Higher Specialized Knowledge.
- For H1b (Joint Effect of Status Motives and Specialized Knowledge on Contrariness, we assign values of
  - +3 for Active Status Motives, Higher Specialized Knowledge
  - -1 for Active Status Motives, Lower Specialized Knowledge
  - -1 for Not Active Status Motives, Lower Specialized Knowledge
  - -1 for Not Active Status Motives, Higher Specialized Knowledge.
- For H2a (Joint Effect of Status Motives and Decision Authority on Contrariness, we assign values of
  - +3 for Active Status Motives, Low Decision Authority
  - -1 for Active Status Motives, High Decision Authority
  - -1 for Not Active Status Motives, Low Decision Authority
  - -1 for Not Active Status Motives, High Decision Authority
- For H2b (Joint Effect of Status Motives and Decision authority on Precision), we assign values of
  - +3 for Active Status Motives, Low Decision Authority
  - -1 for Active Status Motives, High Decision Authority
  - -1 for Not Active Status Motives, Low Decision Authority
  - -1 for Not Active Status Motives, High Decision Authority

We calculate the test statistics for our contrasts by dividing the mean squares for the contrast by the mean square of the error from the ANOVA with the same respective dependent measure. That is, for H1a and H2a (contrariness), we calculate the F statistic by dividing the mean square error from each contrast by the mean square error from the 2 (Motive: status active, status not active) X 2 (Specialized knowledge: higher, lower) X 2 (Decision authority: high, low) ANOVA with contrariness as the dependent measure. For H1b and H2b, (precision), we calculate the F statistic by dividing the mean square error from each contrast by the mean error from the 2 (Motive: status active, status not active) X 2 (Specialized knowledge: higher, lower) X 2 (Decision authority: high, low) ANOVA with precision as the dependent measure. We calculate two-tailed p-values.

Partial Effects Tests

For each hypothesis, partial effects tests examine the pairwise difference between the cell weighted +3 (i.e., the cell predicted to differ from the other cells) and each of the cells weighted -1. We calculate the mean squares for each of the partial effects and calculate the F statistic by dividing the mean squares from the partial effect by the mean square error from the ANOVA with contrariness as the dependent variable (for H1a and H2a) or from the ANOVA with precision as the dependent variable (for H1b and H2b). We calculate one-tailed p-values.