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On the role of the organization in auditors' client-acceptance decisions

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Abstract

The objective of this research is to better understand the role that the accounting firm organization plays when auditors make difficult client-acceptance decisions in the midst of conflicting influences—specifically between the professional and commercial "logics of action". The investigation was conducted via a field study at three Big Six firms located in Canada. The main argument that is developed in the paper is that the firm sets the stage for auditors' decision-making by making its formal organizational components (e.g., the firm's partner-compensation scheme and decision-making policies) more reflective of one of the two logics, thereby establishing and helping reproduce certain patterns of order and consistency within the firm. However, the firm's organizational components are also to some extent reflective of the other logic, thereby providing decision-makers with a legitimizing space to influence the decision process differently. I present fieldwork data that is consistent with the paper's argument.

1. Introduction

Since the 1970s, decision-making research in auditing has relied heavily on the laboratory experimental method (Solomon & Shields, 1995, p. 172). Ashton and Ashton (1995, p. 9) maintain that this line of inquiry has documented shortcomings of human judgement in the auditing setting, generated insights on how these shortcomings may be reduced or eliminated, and helped to develop a better understanding of the roles of knowledge and memory in auditors' decision-making. Nevertheless, some auditing academics have been critical of the general direction of this line of inquiry, arguing that the findings do not reflect significantly actual practice. For example, Gibbins and Swieringa (1995, p. 242) note that most audit studies have treated judgement problems as separable from the organization of the accounting firm, and research participants have been treated as independent actors. These methodological assumptions are problematic since decisions in audit settings are made typically by hierarchically structured groups whose work is closely guided or constrained by professional standards, firm policies and procedures, and decision support systems (Libby & Luft, 1993; Solomon, 1987). While recent laboratory studies have begun to include organizational components in their experimental designs, such inclusions have usually been done on a one-component-at-a-time basis (Ashton & Ashton, 1995, p. 22). Little research has examined the influence of the firm on auditors' decision processes from a broader perspective. The objective of this study is to better understand this influence.

The organizational setting in which most audit engagements are carried out is the large professional partnership (Greenwood, Hinings, & Brown, 1990, p. 725). These partnerships are

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owned by a relatively large number of partners who, in addition to having some voting power, are the firms' key production workers, in charge of recruiting new clients and providing services. Rank-and-file partners working at a firm's various local offices therefore have significant power over their work (Barrett, Cooper, & Jamal, 2001; Freidson, 1986, p. 213). For their part, administrative partners at a firm's national office assume the co-ordination and control of activities within the firm through various organizational components, such as the firm's partner-compensation scheme and decision-making policies. However, local practitioners may resist administrative partners' efforts at overseeing their practice (e.g., Carpenter, Dirsmith, & Gupta, 1994). Local offices' decisions therefore constitute an arena in which the perspectives of local practitioners and those of administrative partners may clash. In spite of practitioners' resistance, research has shown that organizational components may have a long run socializing impact on local practitioners' mindsets (Covaleski, Dirsmith, Heian, & Samuel, 1998). For example, through devices such as time budgets, local auditors tend to develop particular forms of time-consciousness that significantly affect their identity and decision-making behaviour (Anderson-Gough, Grey, & Robson, 2001). In brief, auditors' decisions are made in a complex organizational setting, in which issues of professional autonomy, career advancement, policy-making, and socialization intermingle.

This paper examines the relationship between the accounting firm organization and auditors' decision-making within the context of a type of decision that auditors claim is crucial to their practice, namely, the difficult client-acceptance decision (e.g., CICA, 1996, p. 5). According to *The Economist* (1995, p. 62), auditors tend to be selective about audit engagements, especially at the time of initial acceptance, in an attempt to mitigate the potential for lawsuits that significantly increased since the turn of the 1990s. In this atmosphere, auditors' rationale when making the client-acceptance decision is that they are better able to avoid lawsuits when rejecting potential clients for which available information suggests high potential for litigation (Hall & Renner, 1991). However, the decision to reject a potential client may be difficult to make since this option contradicts the pressures that are exerted upon partners to contribute to the growth of their firm (Bérard, 1994; Dirsmith, Heian, & Covaleski, 1997, p. 12). Among all client-acceptance decisions, this investigation was restricted to those that auditors consider as difficult. These decisions allegedly have the potential to jeopardize the firms' survival (e.g., Estey, 1996), thereby making the conflicting aspects of the resolution process more salient.

It is widely recognized in professional and academic literature that audit decisions are subject to conflicting influences, in particular between professionalism and commercialism (e.g., Bailey, 1995). The present paper aims to better understand the role that the firm plays when auditors make difficult client-acceptance decisions in the midst of such conflicting influences. Each of these influences is conceived of as carrying its own reasoning—or logic of action (de Gaulejac, 1987)—regarding the way decisions have to be made. Specifically, I examine how the firm affects the way auditors reconcile the professional and commercial logics of action when they make difficult client-acceptance decisions.

Adapted from a current of research in organizational analysis, the thesis of the paper is that the firm sets the stage for auditors' decision-making by configuring its organizational components (e.g., the firm's partner-compensation scheme and client-acceptance policies) in such a way that the professional and commercial logics are under a moderate level of tension. That is, to sustain internal cohesiveness and avoid anarchy in decision-making, the firm makes its organizational components more reflective of one of the logics. In so doing, the firm sends auditors the signal that it expects the logic to be significantly influential during decision-making. However, to prevent the favoured logic from having a disproportionately large impact on decisions (which may, at times, not be beneficial to the firm), the firm's organizational components are also to some extent reflective of the other logic of action, whose role is to mitigate and constrain the favoured logic. As a result of the firm's organizational configuration, claims made by participants to influence the