WORKING PAPER

Does Status Equal Substance'? The Effects of Specialist Social Status on Auditor Assessments of Complex Estimates

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KEY TAKE-AWAYS

Auditing standards require that auditors' reliance on a specialist is commensurate with the specialist's competence. In assessing competence, auditors encounter cues diagnostic of the specialist's social status but less so of competence. In an experiment, we manipulate specialist status and find that auditors mistake status for competence unless they are prompted to separate the constructs. This raises the possibility that auditors could over-rely on high-status specialists. However, auditors also assess high-status specialists as more influential and, when the specialist disagrees with the client, they rely more on high-status specialists because of this perceived influence. Thus, high-status specialists can increase auditors' willingness to challenge the client by providing a strong ally. Additional analyses suggest that auditors are aware that they rely on the specialist's influence rather than competence, indicating that auditors do not use the process that auditing standards envision to evaluate and rely on specialists.

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Abstract

Auditing standards require that auditors' reliance on a specialist is commensurate with the specialist's competence. In assessing competence, auditors encounter cues diagnostic of the specialist's social status but less so of competence. In an experiment, we manipulate specialist status and find that auditors mistake status for competence unless they are prompted to separate the constructs. This raises the possibility that auditors could over-rely on high-status specialists. However, auditors also assess high-status specialists as more influential and, when the specialist disagrees with the client, they rely more on high-status specialists because of this perceived influence. Thus, high-status specialists can increase auditors' willingness to challenge the client by providing a strong ally. Additional analyses suggest that auditors are aware that they rely on the specialist's influence rather than competence, indicating that auditors do not use the process that auditing standards envision to evaluate and rely on specialists.

Keywords: Status, Auditing Complex Estimates, Specialists, Advice

"We see status virtually everywhere in social life, if we think to look for it…we usually do not think about it, at least not explicitly, even though it permeates our lives."

-Cecilia Ridgeway, *Status: Why Is It Everywhere? Why Does it Matter?*

I. INTRODUCTION

Auditors frequently use the work of specialists when auditing estimates and other complex accounts (PCAOB 2015a; Cannon and Bedard 2017; Hux 2017).[1] We argue that the extent to which auditors rely on specialist input depends on the specialist's *social status* (hereafter "status"), which is "a comparative social ranking of people, groups, or objects in terms of the social esteem, honor, and respect accorded to them" (Ridgeway 2019, 1) and "a defining characteristic of human interaction that emerges and persists in almost every form of social group" (Fernandes, Yu, Howell, Brooks, Kilduff, and Pettit 2021, 57).

We predict that specialist status affects auditors' reliance on specialist work in at least two ways. First, when auditors use specialist input, standards require them to assess the specialist's technical *competence* and to use this assessment to determine the extent of reliance on the specialist's input (PCAOB 2015a; 2015b; EY 2015; IAASB 2018; PCAOB 2018). However, specialist competence is difficult to assess, and theory suggests that auditors will rely on the specialist's status to assess competence, even when cues to status are unlikely to be informative about competence (Anderson and Kilduff 2009a; Cheng and Tracy 2014). Second, high specialist status increases the specialist's *influence*, which is "the process in which individuals modify

[1] Specialists have expertise outside of accounting and auditing, such as in engineering, valuation, or actuarial science, and can be employed by the audit firm ("employed specialists") or engaged from third party firms ("engaged specialists"). Larger audit firms tend to use more employed specialists while smaller firms use more engaged specialists. Although our experimental materials refer to an "employed specialist," theory predicts no differences across these sources, and therefore we expect our theory and results generalize to both types of auditor-hired specialists. Management often relies on its own specialists in reporting estimates. We do not examine effects related to client-engaged specialists.

others' behavior, thoughts, and feelings" (Anderson and Kilduff 2009b, 491). People tend to defer to high-status individuals by imitating their actions, adopting their views, and allowing them to speak first (D'Aveni 1990; Henrich and Gil-White 2001). This deference makes high-status specialists desirable as allies when there is conflict with another party (i.e., client management).

We draw on Status Characteristics Theory (SCT) (Berger, Cohen, and Zelditch 1972; Simpson and Walker 2002) to guide our examination. SCT proposes that people use others' membership in valued social categories to develop expectations about their performance on a given task. To develop these expectations, people use *status characteristics* such as race, gender, occupation, assertive or dominant behavior, and ties to exclusive schools, clubs, activities, companies, or charities (D'Aveni 1990; Jensen and Roy 2008). We survey auditors, and their responses suggest that they commonly encounter this type of information while assessing specialist competence. Because people often benefit from associating with an individual who possesses status characteristics, they grant high-status individuals influence and the benefit of the doubt when assessing other positive traits, including competence (Correll and Ridgeway 2003; Leary, Jongman-Sereno, and Diebels 2014). Based on these ideas, we predict that auditors will view high-status specialists as more *competent* and *influential* than moderate-status specialists.

Further, we predict that auditors will place greater weight on input from high-status specialists in situations with substantial conflict between available evidence and the client's assertions. We focus on two such situations: (1) specialists *disagree* with the client's estimate and (2) specialists *agree with the client but provide weak justification* for their agreement. When a specialist disagrees with the client, we expect that the specialist's high status (i.e., higher perceived competence and influence) lend credence to the disagreeing opinion and embolden auditors to disagree with the client's position. When specialists agree with the client but offer weak

justification, we expect high status to increase auditors' agreement with the client for similar reasons, allowing auditors to overlook the poor quality of the specialist's work.

We conduct an experiment with 170 experienced auditors from multiple firms in the Netherlands (mean audit experience = 8.2 years) to test our hypotheses. In the experiment, auditors assess the discount rate used to estimate the fair value of a material asset and receive input from a valuation specialist. The client prefers an aggressively low discount rate. Because status is context-dependent (Leary et al. 2014; Anderson, Hildreth, and Howland 2015), prior to the experiment we separately survey 53 auditors from a similar population on characteristics that could indicate competence or status. To maximize the separation between status and competence characteristics in our main experiment, we manipulate specialist status as high or moderate by varying characteristics that survey participants rated as highly diagnostic of status but less diagnostic of competence (e.g., membership on a national charity board). We manipulate the conclusion and content of the specialist's report at three levels: the client's rate is (1) reasonable with strong support for the conclusion (strongly justified agreement, our baseline condition with minimal conflict), (2) unreasonable with strong support (strongly justified disagreement), and (3) reasonable with weak support (weakly justified agreement). Auditors then assess specialist competence, specialist influence in the audit firm, the most reasonable discount rate, and the range of reasonable discount rates.

Consistent with expectations, we find that auditors assess specialist competence and influence as higher when the specialist has high (versus moderate) status. Moreover, auditors rely more on strongly justified disagreement when it comes from a high- versus moderate-status specialist, and they assess higher, less opportunistic discount rates in this setting. This finding suggests that high specialist status can enhance auditor skepticism by making auditors more

receptive to opinions that disagree with a client's aggressive valuation. Contrary to our expectations, however, we do not find that auditors rely more on weakly justified *agreeing* opinions from high-status specialists. A follow-up experiment shows that poor-quality work can undermine high-status specialists' credibility when the poor quality is salient, and this may explain why auditors do not rely more on high-status specialists in this setting.

Supplemental analyses to our main experiment reveal that auditors do not use their own competence assessments to determine reliance on the specialist in the way that standards suggest. We find that high status increases auditors' assessments of specialist *competence*, leading them to assess *lower, more client-friendly* discount rates when the specialist agrees with the client and provides strong justification. However, when the specialist disagrees with the client, high status increases auditor assessments of specialist *influence*, leading auditors to assess *higher, less client friendly* discount rates. Ratings of specialist competence are not associated with auditor judgments when the specialist disagrees with the client. In sum, auditors receiving advice from high-status specialists appear to rely on their higher *competence* assessments to justify accepting a client's aggressive estimate, but they rely on their higher *influence* assessments to justify challenging the estimate.

Finally, our main experiment includes a within-participants component intended to test whether auditors respond differently to status cues about the specialist when they are made more salient. We find that a more salient status cue affects auditors' reliance on the specialist but not their competence ratings of the specialist. We interpret the combined results as suggesting that auditors are aware that they use status to determine their reliance on the specialist, especially when the specialist disagrees with the client, but their use of status to assess competence is likely unintentional. As the opening quote suggests, status influences auditors' judgments in ways that

they themselves do not fully grasp. While auditors have imperfect insight into their use of status cues, they appear to be aware that they base their reliance on specialist characteristics other than competence.

This study contributes theory and evidence about how specialist status affects auditor reliance on specialists. We find that high specialist status increases the specialist's perceived influence and, in turn, can embolden auditors to challenge an aggressive client estimate. This finding is noteworthy given widespread concern that managers use accounting estimates opportunistically (e.g., Bamber, Jiang, and Wang 2010; SEC 2019) and is consistent with evidence that status can constrain groupthink on audit engagements (Knechel and Leiby 2016). It suggests that recognizing the importance of status and influence—e.g., in professional standards or audit firm procedures and quality controls—may identify ways to reduce the costs of challenging clients, and thus curtail opportunistic financial reporting.

Further, auditors' reliance on cues other than technical competence is inconsistent with auditing standards, which direct auditors to evaluate specialist work based on the evaluation of the specialist's knowledge, skill, and ability (IAASB 2008; PCAOB 2018). For example, auditors may exercise less care evaluating estimates when assessments of specialist competence are inflated by high-status cues, consistent with claims that auditors fail to accurately evaluate specialist competence for the task at hand (IAASB 2013; PCAOB 2018). Our findings suggest that standards or firm policies that increase auditors' awareness of status—e.g., by supplementing competence assessments with assessments that distinguish status cues from those more predictive of task competence—may constrain inflated competence assessments.

II. THEORY AND HYPOTHESIS DEVELOPMENT

Specialist Use in Auditing

Specialists are commonly used in audits of complex estimates and related accounts. For example, a PCAOB (2015a) review of 50 large audit engagements finds that 90% used specialists and nearly all specialist activity related to estimates. Similarly, Cannon and Bedard (2017) find that 85% of a sample of Big Four engagements used specialists for the audit of fair value estimates. Because auditors struggle to maintain the knowledge and skepticism necessary to audit complex estimates, the use of independent experts can improve audit quality in this area (Griffith, Hammersley, and Kadous 2015). Auditors also engage specialists for other complex issues such as interpreting contracts, evaluating certain assets such as mineral or fossil fuel reserves, and estimating useful lives of assets (PCAOB 2018).

Auditing standards require audit teams that use specialists to evaluate and document the specialist's technical competence (IAASB 2008; PCAOB 2018). Standards suggest several information sources that auditors can use in their evaluation, including personal experience with the specialist's work and knowledge of the specialist's qualifications, such as professional licenses (e.g., IAASB 2008). Importantly, they also direct auditors to consider indicators of the specialist's status. For example, AS 1210 states that the auditor should consider "the reputation and standing of the specialist in the views of peers....", and ISA 620 notes that auditors should consider the "expert's qualifications […] or other forms of external recognition" (IAASB 2008, 10).

To examine how auditors implement the requirement to evaluate specialist competence, we requested open-ended responses to several questions about this process from seven auditors with ranks ranging from senior through partner across each of the Big Four firms in the

Netherlands. Appendix A provides the questions and a summary of responses.[2] While specialists are vetted at the firm level before they are engaged, auditors indicate that they also conduct engagement-specific competence assessments of specialists, consistent with standards. Responses indicate that specialist competence assessments are typically performed and documented by audit staff or seniors, reviewed by a manager, and signed off by the engagement partner.

In assessing specialist competence, auditors evaluate the specialist's knowledge, (industry) expertise, skills, and objectivity by reviewing the specialist's academic achievements, work history, and membership in professional bodies. Consulted sources include the specialist's resume, public registers (e.g., certification registers), firm-level records, other public sources (e.g., LinkedIn), and discussions with the specialist or with peers about their experiences with the specialist. These sources contain information that may be informative about specialist status, as well as specialist competence. One respondent explicitly referred to the specialist's reputation and status when asked about characteristics that would be evaluated. We conclude that status information is readily available when auditors formally evaluate specialist competence on audit engagements.

Status Characteristics Theory and Auditors' Assessments of the Specialist

SCT is a branch of Expectation States Theory, which describes how people conducting collaborative tasks form expectations about others' capabilities (Correll and Ridgeway 2003). SCT extends this theory by arguing that socially significant attributes called *status characteristics* are an important basis for differentiated expectations, such that high status characteristics are generally associated with higher performance expectations (Berger, Wagner, and Zelditch 1998). For

[2] We obtained approval from the relevant institutional review board for this questionnaire, as well as for the survey and two reported experiments, prior to running each study.

example, in mixed-gender groups, performance expectations tend to favor males, leading to a disparity of influence and participation between genders (Ridgeway 2001).

Characteristics become associated with status by being 1) salient in social situations, 2) observable in distinct categorical states, and 3) the basis of an observed inequality in which people in one categorical state have greater access to valued resources than people not in the category (Ridgeway 1991). Status can be self-fulfilling insofar as people ascribe positive expectations to a characteristic and confer advantages on others possessing these characteristics. Consequently, this dynamic increases the influence and likely success of individuals with such characteristics in future interactions (Berger and Conner 1969; Ridgeway, Berger, and Smith 1985; Berger, Conner, and Fisek 1974). Status differences are thus a significant driver of inequality, prejudice, and discrimination in society (Platow, Strong, Grace, Knight, Augoustinos, Bar-Tal, Spears, and Van Rooy 2023).

Status characteristics can be of two types. *Specific* status characteristics, such as valuation experience or professional credentials generate expectations within a narrow, well-defined set of tasks. On the other hand, *diffuse* status characteristics create general expectations for high performance across a wide range of settings and have stronger effects and greater resilience to contrary evidence compared to specific characteristics (Simpson and Walker 2002). Diffuse characteristics include gender, race, and occupation, and ties to elite social circles linked to exclusive schools, clubs, activities, companies, or charities (D'Aveni 1990; Jensen and Roy 2008).

Two tenets of SCT are particularly relevant in examining when and how status may affect auditor judgment. First, the *salience* principle asserts that status characteristics affect task judgments only when they are distinctive in the given setting, allowing for discrimination among actors (Wagner and Berger 1997; Leary et al. 2014). For example, holding a degree from Harvard

will affect auditors' evaluations of specialist competence if such a credential is uncommon among specialists and thus stands out. However, if all specialists possess Harvard degrees, this characteristic will not affect auditor judgment. Second, the *burden of proof* principle contends that individuals will consider status cues relevant to their task unless those characteristics are explicitly proved to be invalid, i.e., *dissociated* from the task (Wagner and Berger 1997). Dissociation is relatively uncommon, especially for diffuse characteristics. In fact, Berger et al. (1972) note that individuals "act as if the burden of proof is on showing that the status characteristic is *not* relevant" (245).

Consistent with SCT, we expect that auditors will have elevated performance expectations for high-status specialists. In other words, as long as status characteristics are salient and not explicitly dissociated from the task, auditors will view high-status specialists as more competent than moderate-status specialists. In the audit setting, specialist status varies widely (Bauer and Estep 2019). Moreover, the standards guiding auditors' evaluation of specialists explicitly prompt auditors to attend to status characteristics (e.g., a specialist's "standing among peers"), making dissociation unlikely.

We also expect that auditors view higher-status specialists as more influential. The respect given to high-status individuals often translates into influence over resource allocations and group members' attention and decisions (Berger et al. 1998; Foulsham, Chen, Tracy, Henrich, and Kingstone 2010; Leary et al. 2014). That is, the esteem and admiration paid to high-status individuals typically result in uncoerced compliance with and less frequent questioning of their preferences (D'Aveni 1990; Anderson et al. 2015). This effect is likely exaggerated in audit settings due to common features of the setting, including auditor-specialist knowledge, accountability pressures, hierarchical teams, and frequent changes in team membership, all of

which make deference to status more commonplace (Bunderson 2003; Jensen and Roy 2008; Hong, Zhang, Gang, and Choi 2017; Greer, DeJong, Schouten, and Dannals 2018). Based on this reasoning, we predict that specialist status influences auditors' assessments of specialist competence and specialist influence. Stated formally:

> **H1a:** Auditors will assess specialist competence as higher when the specialist has high (as opposed to moderate) status.
>
> **H1b:** Auditors will assess specialist influence as higher when the specialist has high (as opposed to moderate) status.

Because status indicators are not always positively associated with competence, a finding in support of H1a implies potential bias in auditors' assessments of specialist competence. For example, individuals often rely on highly visible yet imperfect symbols of status, such as the display of confidence or a reduced likelihood of being second-guessed, to assess others' competence (Anderson and Kilduff 2009a; 2009b; Kilduff, Willer, and Anderson 2016). Unsurprisingly, high-status decision makers often underperform their moderate-status counterparts (Malmendier and Tate 2009), leading some scholars to characterize status as the *unearned* dimension of social rank (see Washington and Zajac 2005) and to implicate status in "creating the illusion of competence" (Pfeffer 1982, 10).

Specialist Status and Auditor Conclusions

We next develop hypotheses predicting that specialist status will affect auditors' use of specialist advice in situations involving a conflict between specialist-provided evidence and client assertions. Theory suggests there are benefits in deferring to high-status individuals in many social and professional situations (Griskevicius, Tybur, Gangestad, Perea, Shapiro, and Kenrick 2009; Knechel and Leiby 2016). Input from high-status specialists is likely to increase the justifiability of audit conclusions and to reduce dissent via social influence effects. Thus, in settings involving

potential conflict, we expect that auditors will be particularly sensitive to cues they perceive as indicative of specialist competence and influence. Below we describe our baseline setting with limited conflict, then we discuss two settings of potential conflict: (1) the specialist disagrees with the client and provides strong justification (leading to H2), and (2) the specialist agrees with the client but provides weak justification (leading to H3).

Auditors are generally motivated to agree with the client (Austin, Hammersley, and Ricci 2020; Griffith, Kadous, and Young 2021). These motivations arise from a variety of sources, including pressures to meet deadlines and satisfy *ex post* reviews that demand consistency in documented audit conclusions (AICPA 2012), as well as financial and personal ties to the client (Johnstone, Warfield, and Sutton 2001). Given auditors' motivations, when specialists agree with the client's estimate and provide strong justification, auditors are likely to view specialist agreement as a strong signal of the reasonableness of the client's estimate and weight it accordingly (e.g., Griffith et al. 2015). We view specialists' *strongly justified agreement* with the client as a conceptual baseline in which specialist status should not meaningfully affect auditors' conclusions. That is, there is minimal potential conflict in this setting as the client's preference to report the estimate as is, the auditor's preference to agree with the client and to expedite the engagement, and the specialist's well-justified agreement all converge toward the same conclusion.

By contrast, specialist disagreement with the client's estimate implies conflict. Scholarly evidence suggests that specialists are willing to challenge clients (Griffith et al. 2015; Knechel and Leiby 2016), and indeed, specialists sometimes do so in high-profile cases (e.g., Missal 2008). However, auditors are often motivated to discount disagreement from specialists because such disagreement can create complications for the engagement team (Missal 2008; Griffith 2018;

2020). Also, auditors are prone to motivated reasoning, and thus may readily accept specialist agreement but scrutinize disagreement (Kadous, Kennedy, and Peecher 2003).

We expect that high specialist status can counteract this tendency. People are accustomed to high-status individuals expressing their opinions, setting a tone that allows for disagreement with the status quo (Anderson and Berdahl 2002; Anderson, Brion, Moore, and Kennedy 2012). For example, Badolato, Donelson, and Ege (2014) find that firms' financial reporting is better when financial experts on their audit committee hold higher status than management, which they attribute to management deferring to high-status board members. We similarly reason that, since high-status specialists are viewed as more competent and influential, deference to the specialist's opinion is less controversial. Consistent with this notion, in a meta-analysis, Greer et al. (2018) find that relying on status cues reduces conflict when team members are uncertain about their role or how their judgments should align with those of others. Thus, we expect that as specialist status increases, their disagreeing opinion is less likely to generate conflict and more likely to command deference from auditors, client management, and potentially others outside the engagement. As a result, auditors receiving advice from a high-status specialist are likely to deem their disagreement with the client as reasonable and socially acceptable, easing any negative implications of standing up to the client. This leads to our second hypothesis:

> **H2:** When the specialist input is strongly justified disagreement with the client, auditors will disagree with the client more when specialist has high (as opposed to moderate) status.

While auditors may face challenges in accurately evaluating aspects of the specialist's work, they possess the capability and, according to ISA 620 (IAASB 2008), the responsibility to assess the *justifiability* of a specialist report. Prior research suggests that auditors routinely assess the justifications provided by other auditors and by management (Koonce, Anderson, and Marchant 1995; Tan and Shankar 2010; Kadous, Leiby, and Peecher 2013). In doing so, they may

encounter situations involving *strongly justified agreement* or *weakly justified agreement* with the client's estimate. Specialist agreement with the client is unproblematic if the specialist provides strong justification for their agreement—a situation reflecting our conceptual baseline. However, specialists do not always provide strong justification (IAASB 2013; Griffith et al. 2015; Knechel and Leiby 2016; Griffith 2018), and this creates a potential conflict.

SCT suggests that auditors will be more lenient when assessing poor quality justifications provided by a high-status, as opposed to moderate-status, specialist (Foschi 1989; 2000). When there are conflicting signals of a person's capability, such as when a high-status person is associated with low-quality work, decision makers act as though they separately sum the weights of positive and negative signals, and then net the positive and negative signals to form an expectation (Berger, Rosenholtz, and Zelditch 1980; Berger, Norman, Balkwell, and Smith 1992). However, as noted above, diffuse status characteristics tend to overshadow conflicting information in such a weighting (Walker and Simpson 2002). As a result, people tend to penalize members of a lower-status group for doing poor-quality work (i.e., lower quality justifications), but afford the benefit of the doubt to members of a higher-status group (Garcia, Erskine, Hawn, and Casmay 1981; Heilman, Block, and Lucas 1992). We expect to observe this benefit of the doubt for high-status specialists in our setting. Further, in our setting, if auditors perceive high-status specialists as highly competent and influential, deferring to them may reduce the perceived conflict arising from the low justifiability of the specialist's report. This reasoning leads to our third hypothesis:

> **H3:** When the specialist input is weakly justified agreement with the client, auditors will agree with the client more when specialist has high (as opposed to moderate) status.

III. EXPERIMENT 1 – DOES STATUS AFFECT AUDITORS' ASSESSMENTS OF A SPECIALIST AND RELIANCE ON SPECIALIST INPUT?

Experimental Method

Design and Participants

We test our hypotheses using a 2 (*Specialist Status*: high, moderate) X 3 (*Specialist Input*: strongly justified agreement, strongly justified disagreement, weakly justified agreement) between-participants experiment.[3] The strongly justified agreement conditions serve as a baseline (control) in which there is little reason to expect an effect of status because there is minimal conflict (i.e., all parties—auditor, client, and specialist—likely support the client's estimate). The experiment includes a second stage employing a within-participants component to test whether making status and competence cues more salient changes how auditors use them.

Auditors (n = 170, mean experience = 8.2 years) from four firms (two Big 4 and two non-Big 4) in the Netherlands are randomly assigned to one of the six conditions. We gathered the data during seven firm-sponsored training sessions. The sample comprises 20 partners (mean experience = 22.6 years), 16 senior managers (mean experience = 14.3 years), 48 managers (mean experience = 7.0 years), 77 seniors (mean experience = 4.7 years), and 9 audit staff (mean experience = 2.9 years). All participants report experience having worked with specialists and 85% worked at Big Four firms at the time of the study.[4]

[3] We did not include a condition in which the specialist offers weakly justified disagreement because such a condition would not be useful for testing our hypotheses and because we view this condition as unlikely to produce variability in auditors' responses in the natural environment. That is, given auditors' default preferences for supporting the client and incentives for conducting efficient audits, it is unlikely that an auditor would challenge a client without a strong justification.

[4] An additional 27 auditors reporting no experience working with specialists completed the case. Consistent with prior literature (e.g., Gold, Knechel, and Wallage 2012), we exclude data from these participants because they lack the knowledge to meaningfully interpret case materials. When we include these observations, our inferences are the same, but p-values increase, presumably due to noise.

Experimental Task

In our experimental task, auditors evaluate the discount rate used by a client to estimate the fair value of a class of investment properties.[5] Auditors commonly seek specialist input on discount rates (Griffith 2020) due to the susceptibility of estimates to reporting opportunism (Dechow, Myers, and Shakespeare 2010). In the case, the client's preferred discount rate is more aggressive than the rates used by industry leaders, resulting in a higher asset value and larger recognized gain on asset value than would result from a more appropriate rate. We provide background on the investment properties, inputs into the discount rate, evidence collected, and industry benchmarks. The evidence pattern is ambiguous but suggests opportunistic reporting by management.[6]

After reviewing the case materials, auditors receive input from a specialist employed by their firm. The introduction of the specialist contains our manipulation of *Specialist Status*, and the specialist's memo contains our manipulation of *Specialist Input*. After receiving specialist input, auditors assess the most appropriate discount rate and the acceptable discount rate range, as well as the specialist's competence and influence.

Independent Variables

The experimental case provides information that is commonly consulted to understand the specialist's qualifications. It is presented as having been gleaned from a review of the specialist's resume, LinkedIn profile, and discussions with a close colleague who has worked with the

[5] The case is loosely adapted from Peecher et al. (2010), Kadous et al. (2013), and Knechel and Leiby (2016). We extensively revised the case to reflect a different client industry, a different type of estimate, current macroeconomic conditions, and the European context. Five Dutch audit managers and partners reviewed the case prior to the experiment for realism and appropriateness for the context.

[6] We situate our task in a high-risk setting because variations in reliance on specialist reports are most meaningful in such settings. Risk factors incorporated into the case include that it concerns a Level 3 estimate and involves client entry into a new market, significant geopolitical uncertainty, and an input to the client's model that is more aggressive than that of industry leaders. The case further emphasizes the significance of this account by informing participants that the properties are 20% of the client's total assets, and that a 10 (40) basis point discount rate change equates to a 2.2% (9.2%) change in the fair value of the asset class. We do not provide an explicit materiality threshold.

specialist. Recall that practitioner responses to our questions on specialist evaluation identify these sources as common avenues for evaluating specialist competence (see Appendix A). To manipulate *Specialist Status,* we vary the description of the specialist using insights from a separate survey of experienced audit professionals, which is detailed in Appendix B. The survey presents 13 characteristics spanning categories that SCT and related literature identify as diagnostic of status: (1) social connections outside work (D'Aveni 1990), (2) social connections at work (Bunderson 2003), (3) interpersonal behaviors (Ridgeway et al. 1985), and (4) qualifications or work history (Berger and Conner 1969). Survey participants assess how diagnostic each characteristic is of the specialist's technical knowledge (competence), respect from others (status), and influence.

In the experiment, we manipulate status using characteristics that survey participants indicated are relatively diagnostic of status but not of competence. We hold cues of specialist competence constant across all conditions, indicating that the specialist has a normal work history, roughly the same amount of experience as the participant, and a close colleague who attests there is nothing out of the ordinary about the specialist. The *Moderate-Status* condition includes no additional information about the specialist. The *High-Status* condition adds that the specialist (1) serves on the board of directors of a well-known charity, (2) attends social events frequented by national politicians and businesspeople, (3) is very self-confident, and (4) usually speaks first in group settings.[7] Auditors in our survey rated possessing relevant certifications as indicating both high competence and high status. They rated the attributes we use in our manipulation as indicating

[7] Note that the wording in the *High-Status* condition specifically references the specialist's self-confidence in *past* interactions, not their confidence in the current task or their current report. Self-confidence and related behaviors, such as assertiveness, were among the first attributes identified as *status characteristics* in SCT (Berger and Connor 1969; Berger et al. 1974; Ridgeway et al. 1985). Further, self-confidence fulfills all three criteria for status characteristics outlined in SCT: 1) people pay close attention to others' confidence in social situations, 2) confidence is often interpreted in categorical terms like "person A is confident" or "person B is not confident," and 3) self-confident individuals tend to enjoy better career and task-related outcomes compared to those who lack confidence.

status at a level similar to that of possessing certifications but indicating competence to a much lesser extent. See Appendix B for survey ratings and Appendix C for the status manipulation.

We manipulate *Specialist Input* in the specialist memo, which describes the work performed by the specialist and presents the specialist's opinion. In all conditions, the specialist concludes that the client's valuation model is mathematically valid. In the *Agree with Strong Justification* condition, the specialist reports performing an independent WACC analysis, explicitly quantifies a relatively minor impact of intensifying competition on the discount rate assumption, and concludes that the rate falls within a reasonable range. In the *Disagree with Strong Justification* condition, the specialist reports performing an independent WACC analysis, explicitly quantifies a relatively large impact of intensifying competition on the discount rate assumption, and concludes that the rate is not within the reasonable range, suggesting it should be higher. In the *Agree with Weak Justification* condition, the specialist concludes that the client's rate is reasonable, but neither reports an independent WACC analysis nor quantifies the impact of intensifying competition. The specialist notes that the client's valuation model differs from models used by other firms and includes *ad hoc* adjustments, which the specialist states may be justified but without providing an explanation. Appendix D contains the full specialist input manipulation.

Dependent Variables

Our dependent measures for H1a and H1b are assessments of the specialist's *Competence* and *Influence* on 11-point Likert scales with anchors 0 = "Not at all competent / influential in their audit firm" and 10 = "Very competent / influential in their audit firm." For H2 and H3, auditors are asked to provide an estimate of the most reasonable discount rate and the range of reasonable discount rates. U.S. and international standards direct auditors to evaluate inputs to client estimates by developing an independent point estimate or range of reasonable values and testing whether the

client's input is in the range (IAASB 2008; PCAOB 2018). Thus, our measures reflect the type of judgment auditors would make in practice. Lower discount rates indicate more aggressive, client-friendly conclusions, and hence higher levels of agreement with the client. We use both the *Most Reasonable Rate* and the *Lowest Reasonable Rate* (i.e., lower range bound) to test our hypotheses.

Within-Participants Design

Our experiment includes a second stage that uses a within-participants design to test (1) whether auditors differentiate between cues of status and cues of competence and (2) whether how auditors use status to evaluate specialists and incorporate their input changes when the cues are more salient. After participants assess the primary dependent variables, we randomly assign them to receive one of three pieces of new information about the specialist. This information is either diagnostic of task *competence* or it is *status* information that is less diagnostic of competence. Specifically, in the *Competence Cue* condition, the specialist is a Register Valuator or a Certified European Financial Analyst.[8] In the *Status Cue* condition, the specialist plays tennis with senior partners at the firm.

Results

Manipulation Checks

We report two-tailed p-values unless otherwise noted. To examine the success of our *Specialist Input* manipulation, we ask auditors to assess both the quality of the specialist's report and the extent to which the report constitutes persuasive evidence on 11-point Likert scales (anchored by 0 = "Very low"/"Not at all" and 10 = "Very high"/"Very much"). Auditors'

[8] We include two *competence* conditions based on discussions with practitioners, who suggested that possessing multiple certifications could be diagnostic of specialist competence for the audit issue in our case. The *Register Valuator* certification, specific to financial valuation in the Dutch context, requires completion of a specialized post-graduate curriculum, exam passage, and at least five years of experience in a firm recognized as a source of valuation expertise. The *Certified European Financial Analyst* certification mirrors the U.S. Chartered Financial Analyst certification, requiring post-graduate education and exam passage. Participants do not systematically differentiate between the two certifications; thus, we combine them into one condition for expositional and analytical simplicity.

assessments of both quality and persuasiveness are higher in the strong versus weak justification conditions (4.38 vs. 3.70, $t(168) = 2.13$, $p = 0.04$ and 4.72 vs. 3.39, $t(168) = 4.12$, $p < 0.01$, respectively). This is consistent with an effective manipulation of justification strength. For the *Specialist Status* manipulation, we measure auditors' perceptions of the specialist's status in the firm on 11-point Likert scales (anchored by 0 = "Low status" and 10 = "High status"). Assessments of status are significantly higher in the high- versus moderate-status conditions (6.55 vs. 5.79, $t(168) = 2.42$, $p = 0.02$), consistent with an effective manipulation of *Specialist Status*.

Descriptive Statistics

We report descriptive statistics for *Most Reasonable Rate* and *Lowest Reasonable Rate* in Table 2, Panel A and depict the cell means in Figure 1, Panel B. In practice, auditors evaluate the client's discount rate by developing a range of reasonable values and testing whether the client's discount rate falls within the range. In the experiment, 71% of auditors assessed the client's discount rate outside this range, with a higher proportion doing so when the specialist disagrees versus agrees with the client's rate (95% vs. 59%, Fisher's Exact $p < 0.01$). Consistent with this, Figure 1 depicts assessments of the *Most Reasonable Rate, Lowest Reasonable Rate,* and *Highest Reasonable Rate,* with higher assessments when the specialist disagrees with the client.[9] Importantly, the mean *Lowest Reasonable Rate* is significantly higher than the client's preference of 4.7% in all conditions (untabulated), suggesting that auditors disagree with the client's rate in all conditions. We reason that, as the difference between *Lowest Reasonable Rate* and the client's rate widens, auditors will be more likely to challenge the client's rate.

[9] We depict the upper range bound for completeness, but the upper bound is unlikely to influence auditor judgments unless the discount rate is overly conservative. We observe no differences across conditions in the *Highest Reasonable Rate* ($p = 0.17$).

Hypothesis Tests

Participants have a wide range of audit experience. To reduce noise in our hypothesis tests, we fully cross *Status* and *Input* with an *Experience* indicator that splits our sample based on rank. The less experienced sample includes seniors and staff (n = 87), while the more experienced sample is made up of managers, senior managers, and partners (n = 80).[10] We discuss experience effects in supplemental analyses where experience effects modify reported results.

Specialist status and assessed competence (H1a) and influence (H1b). Table 1 reports descriptive (Panel A) and inferential statistics (Panels B and C) for auditors' assessments of specialist competence and influence. We estimate a contrast for each measure and compute test statistics using the error term from the 1 X 12 ANOVA that includes each level of *Status, Input*, and *Experience*. We assign weights of -1 to the moderate-status conditions and +1 to the high-status conditions. The contrast for assessed competence is significantly greater than zero ($t(158) = 2.41$, $p = 0.01$, one-tailed), supporting H1a. The contrast for assessed influence is also significantly greater than zero ($t(158) = 5.38$, $p < 0.01$, one-tailed), supporting H1b. High specialist status causes higher assessments of specialist competence and influence.

Specialist status and disagreement with the client (H2). We use auditors' assessments of (1) the *Most Reasonable Rate* and (2) the *Lowest Reasonable Rate* to test H2 and H3. Lower discount rates indicate more aggressive, client-friendly conclusions, and hence higher levels of agreement with the client. Table 2, Panel A reports descriptive statistics for these dependent measures and Panels B and C report inferential statistics. Figure 1 plots expected (Panel A) and observed (Panel B) cell means for H2 and H3. Because the *Strongly Justified Agreement* conditions serve as our baseline for testing H2 and H3, we first confirm that there is no difference between

[10] Including *Experience* and its interactions with our independent variables increases the R^2 of our models from 0.22 to 0.29 for *Most Reasonable Rate* and from 0.23 to 0.29 for *Lowest Acceptable Rate.*

high and moderate status in these conditions for either the *Most Reasonable Rate* ($p = 0.64$) or the *Lowest Reasonable Rate* ($p = 0.97$).

H2 predicts that auditors will be more influenced by specialists' strongly justified disagreement when specialist status is high, as opposed to moderate (see Figure 1, Panel A). We use two contrasts to test this hypothesis: (1) the simple effect of *Specialist Status*, given *Strongly Justified Disagreement*, and (2) an alternative, albeit lower power difference-in-differences test of the effect of *Specialist Status* in the *Strongly Justified Disagreement* condition versus in the *Strongly Justified Agreement* (baseline) condition.

Considering the *Most Reasonable Rate,* our first test of H2 indicates that auditors assess higher (less client-friendly) rates when receiving *Strongly Justified Disagreement* from a *High-Status,* as opposed to *Moderate-Status* specialist ($t(155) = 2.01$, $p = 0.02$, one-tailed). This supports our prediction that a specialist's high status increases auditors' reliance on the specialist's input. The difference-in-differences test shows a greater raw difference between the *High-* and *Moderate-Status* conditions for *Strongly Justified Disagreement* versus *Agreement* (0.22 vs. 0.06), but it is not statistically significant ($t(155) = 1.61$, p = 0.11, one-tailed).

Considering the *Lowest Reasonable Rate,* both the simple effect of *Specialist Status* given *Strongly Justified Disagreement* ($t(151) = 2.20$, $p = 0.02$, one-tailed), and the difference-in-differences test ($t(151) = 1.76$, $p = 0.04$, one-tailed) are significant. We again observe heavier weighting of the specialist's disagreeing advice, and thus greater willingness to propose adjustments to the discount rate when the advice comes from a high- versus moderate-status specialist. We conclude that the results support H2.

Specialist status and weakly justified agreement with the client (H3). H3 predicts that auditors will be more influenced by weakly justified agreement when specialist status is high

versus moderate. Table 2, Panel B shows two contrasts to test this hypothesis: (1) the simple effect of *Specialist Status*, given *Weakly Justified Agreement*, and (2) the difference-in-differences test of the effect of *Specialist Status* in the *Weakly Justified Agreement* versus the *Strongly Justified Agreement* condition. The contrast estimates are directionally inconsistent with our hypothesis in all four tests. In our first test employing the *Most Reasonable Rate*, we find that auditors exposed to weakly justified agreement do not rely more on a *High-Status* specialist than a *Moderate-Status* specialist. Instead, there is a large difference in the opposite direction such that auditors appear to rely more on the *Moderate-Status* specialist (i.e., $p = 0.99$, one-tailed, equivalent to a two-tailed $p < 0.01$). The difference-in-differences test also suggests that the difference between *High-Status* and *Moderate-Status* condition auditors is not greater for *Weakly Justified Agreement* than for *Strongly Justified Agreement* ($p = 0.94$, one-tailed). Considering the *Lowest Reasonable Rate,* we find no significant difference in auditors' judgments for either test (both $p > 0.75$).[11] We conclude that H3 is not supported.

One potential explanation for the lack of a predicted effect of status on discount rates is that the poor quality of the high-status specialist's work may have been sufficiently salient for at least some auditors to realize that the specialist's high status did not translate into higher competence—i.e., they may have dissociated status from competence. In support of this interpretation, we note that while competence means are nominally higher for high- versus moderate-status specialists in all conditions (see Table 1, Panel A), untabulated t-tests show that the status effect on competence is significant (marginally significant) in the *Strongly Justified Disagreement (Agreement)* condition, but it is insignificant in the *Weakly Justified Agreement*

[11] We also observed no differences between the strongly and weakly justified agreement conditions in the *High-Status* or *Moderate-Status* conditions on either dependent measure, suggesting auditors receiving agreeing opinions did not weight them differentially based on their justification strength.

condition (two-tailed p = 0.35). This seems to indicate the occurrence of dissociation, though it does not explain auditors' apparent move *away* from the high-status specialist's recommendation in this condition. Theory suggests that if the low quality of the high-status specialist's work quality was sufficiently salient to auditors, this gap could undermine the specialist's credibility, prompting auditors to move away from the specialist's recommendation (Sah, Moore, and MacCoun 2013). We explore this possibility further in Experiment 2.

Supplemental Analysis: Does Experience Modify Auditors' Responses to Specialist Status?

In this section, we examine how auditors' experience, categorized by rank (senior or lower versus manager or higher), influences responses to specialist status. For H1a and H1b, untabulated results reveal no evidence of a *Status by Experience* interaction for *Competence* or *Influence,* respectively. Neither do we find evidence that experience affects how auditors respond to specialists' status when the specialist agrees with the client (i.e., baseline condition and our tests of H3).

By contrast, experience appears to affect how auditors respond to specialist status when the specialist disagrees with the client (i.e., H2). Untabulated tests reveal that when auditors receive *Strongly Justified Disagreement*, *High Status* has a larger effect on less experienced auditors than on more experienced auditors for *Most Reasonable Rate* and *Lowest Reasonable Rate*, and these differences are at least marginally significant. This finding is intuitive, because less experienced auditors are likely to benefit more from having an influential ally to support them in challenging the client's estimate than are more experienced auditors. Because the less experienced group includes auditors who typically perform both the estimates task (Griffith et al. 2015) and the evaluation of specialists in practice (as indicated by responses to our questionnaire described in

Appendix A), our aggregated results potentially understate the influence of specialist status on auditor judgments.

Supplemental Analysis: The Different Roles of Specialist Competence and Influence

To more closely examine how specialist status affects auditors' assessments of the client's discount rate, we use Hayes' (2018) bootstrapping approach (PROCESS model 14) to test the indirect effect of *Specialist Status* on auditors' judgments of the *Most Reasonable Rate*.[12] We examine potential mediating paths through *Competence* and *Influence.*[13] We include *Agreement* (*Agree* vs. *Disagree*) as a moderating variable because it affects the interpretation of model coefficients. In the *Agree* conditions, a negative (positive) coefficient indicates assessments that are moving towards (away from) those of the specialist and client. In the *Disagree* conditions, a negative (positive) coefficient indicates assessments that are moving away from (towards) those of the specialist (client). We collapse *Strongly* and *Weakly Justified Agreement* into a single condition because we observe no significant effect of justification strength in our prior tests.

As shown in Figure 2, model results indicate that *High Status* increases assessed specialist *Competence* ($t(165) = 2.17$, $p = 0.03$) and *Influence* ($t(165) = 5.05$, $p < 0.01$), but these mediators have opposite effects on assessments of the *Most Reasonable Rate.* The rate is negatively associated with *Competence* ($t(165) = 2.14$, $p = 0.03$) but positively associated with *Influence* ($t(165) = 1.97$, $p = 0.05$). Further, there is a significant *Agreement* by *Influence* interaction ($t(165) = 2.01$, $p = 0.05$) indicating that the positive effect of *Influence* occurs when the specialist disagrees with the client. In this case, there is a positive indirect effect of *Specialist Status* on the *Most*

[12] Inferences are identical for the *Lowest Reasonable Rate*. We report results for only one of the dependent measures for brevity.

[13] While *Competence* and *Influence* are positively correlated ($\rho = 0.34$), variance inflation factors and conditioning indices do not suggest that collinearity threatens statistical validity. Inferences are the same when we include a measure of the specialist's perceived *Respect* as a third mediator.

Reasonable Rate through *Influence,* suggesting that auditors are more willing to challenge the client when there is an influential ally to support them (0.01, 0.25).[14] There is no indirect effect through *Influence* when the specialist agrees with the client. The support of a high-status specialist can reduce conflict and its social costs, and our findings related to perceived specialist influence are consistent with the idea that auditors are social politicians and are pragmatic about when to challenge the client (e.g., Peecher 1996).

By contrast, when the specialist agrees with the client, there is a negative indirect effect of *Specialist Status* on the *Most Reasonable Rate* through *Competence* (-0.08, -0.01), suggesting that auditors are less willing to challenge the client when they receive input from what they perceive to be a high-competence specialist. To delve into this, we re-run PROCESS model 14 using the three-level *Specialist Input* variable (untabulated). We find that the negative indirect effect of *Status* through *Competence* is significant in the *Strongly Justified Agreement* condition but not in either of the conditions with substantial conflict between the evidence and the client's assertions. That is, auditors may use inflated competence assessments to justify siding with the client when doing so is less controversial. The indirect effect through *Competence* is insignificant when the specialist disagrees with the client. In sum, auditors appear to view status-inflated competence assessments as a basis for agreement but not for disagreement with the client.

Within-Participants Tests: Are Auditors Aware of How Status Affects Their Judgments?

The second stage of our experiment is designed to explore whether making status and competence information more salient changes how auditors use this information. In this stage,

[14] We acknowledge that failure to challenge a questionable estimate can generate costs, including regulatory findings on the auditor's engagement or financial losses from litigation. However, for the individual auditor, the probability of incurring these costs is low because the base rate of material misstatements is low and that of litigation against the auditor is even lower (Waller and Zimbelman 2003; Durney, Elder, and Glover 2014). Auditors lower in the hierarchy may also be less aware of these costs. By contrast, the costs of disagreeing with the client, missing deadlines, etc. are of higher probability and more immediate, making them highly salient to the individual auditor.

participants receive additional information indicating that the specialist either holds a relevant certification (*Competence Cue*) or plays tennis with firm leaders (*Status Cue*). We chose the competence cue to strongly signal the specialist's competence and the status cue to be equivalent to those used in the primary manipulation in terms of signaling competence and status. (See Appendix B for auditors' survey ratings.) Our dependent measures are the signed change in assessed *Competence* and the signed change in *Most Reasonable Rate.* We estimate two 2 (*Stage 1 Status:* High, Moderate) X 2 (*Specialist Agreement:* Agreement, Disagreement) X 2 *(Stage 2 Status:* Competence, Status) ANOVAs, one for each measure.[15] We report cell means in Figure 3 and inferential statistics in Table 3.

We find that auditors revise their *Competence* assessments upwards more when they receive a salient *Competence Cue* than when they receive a salient *Status Cue* ($F_{1,151} = 34.87$, $p < 0.01$). However, when assessing the *Most Reasonable Rate,* auditors become more willing to disagree with the client when receiving an additional salient *Status Cue* compared to an additional salient *Competence Cue* ($F_{1,160} = 14.88$, $p < 0.01$). That is, auditors leverage the additional status cue to determine their reliance on the specialist, even though they rate it as non-diagnostic of competence. We interpret these results as suggesting that auditors' use of status cues in assessing specialist competence (i.e., the H1a effect) is likely unintentional. That is, auditors relied on a status cue in assessing specialist competence in stage 1, when status cues were provided with other information, but they did not rely on a status cue of similar strength in stage 2, when the status cue was presented alone and thus was more salient.[16] Results further suggest that auditor assessments

[15] We did not measure auditor evaluations of *influence* in the second stage, so we cannot assess whether auditors distinguish competence cues from influence cues, per se. We also omitted the reasonable range question from the second stage of the experiment to keep task length reasonable. Thus, we cannot analyze the *Lowest Reasonable Rate.*

[16] We cannot rule out the possibility that auditors respond differently to the stage 1 and stage 2 status cues because they differentially reflect competence; however, as is shown in Appendix B, auditors in our survey viewed the items as reflecting competence to the same degree.

of specialist competence do not drive their reliance judgments in the manner standards envision. Instead, auditors appear to intentionally use factors other than specialist competence (i.e., influence) in determining reliance.

IV. EXPERIMENT 2 – CAN POOR QUALITY WORK UNDERMINE HIGH-STATUS SPECIALISTS' CREDIBILITY?

In Experiment 1, we do not find that auditors rely more on high-status specialists when the specialist provides weakly justified agreement with the client (H3). Instead, we find some indication that auditors moved away from high-status specialists' recommendations, suggesting that they may have viewed high-status specialists as less credible than moderate-status specialists. Experiment 2 explores this possibility further.

SCT proposes that possessing high-status cues creates an expectation of high-quality work. However, in the *Weakly Justified Agreement* condition of Experiment 1, this expectation appears to not have been met. While people tend to give high-status others the benefit of the doubt, as H3 predicts, the specialist's poor-quality work could have undermined auditors' reliance if the difference between actual and expected performance was sufficient large and salient to auditors. In this case, auditors may treat the performance difference as a negative signal that can offset, and even undermine, the preexisting, positive signals about the specialist (Berger et al. 1972; Simpson and Walker 2002). SCT refers to this effortful and relatively uncommon process as *dissociation.*

According to theory, dissociation can go beyond merely offsetting the positive effects of status; it can also generate negative evaluations (Correll and Ridgeway 2003; Ridgeway 2014). Dissociation severs the link between status characteristics and performance expectations for a given person on a given task, and people reconcile the actual versus expected performance difference by re-evaluating the person or task (Rudman and Glick 1999). That is, instead of reconsidering whether the status characteristic is a valid performance indicator—e.g., whether

being on the board of a charity genuinely indicates high competence—people tend to rationalize the lower-than-expected performance by attributing it to other negative attributes of the person or task.[17] Consequently, in the *Weakly Justified Agreement* condition, while auditors may not have doubted the high-status specialist's competence, they may have formed negative evaluations on other dimensions that we did not explicitly measure.

Thus, in Experiment 2, we adopt a broader lens by focusing on the specialist's *credibility*, i.e., the positive characteristics of a person that cause others to accept what they say. Credibility is defined as a combination of the perceived ability to make valid assertions (competence) and the willingness to communicate the most valid assertions (trustworthiness) (Ohanian 1990; Pornpitakpan 2004). We predict that high status is likely to harm the credibility of a specialist providing poor-quality work, because it violates expectations for high-quality work. By contrast, auditors are less likely to form high expectations for moderate-status specialist, minimizing the gap between expectations and reality. Consequently, auditors are unlikely to respond as negatively when a moderate-status specialist delivers poor quality work.

Participants and Method

We employ a two-stage, two-cell experimental design to test our prediction. Auditors from a Dutch non-Big Four firm (n = 41, mean experience = 4.4 years) participate in the experiment at a firm-sponsored training session. We randomly assign participants to either the *High* or *Moderate Specialist Status* condition. The manipulation is identical to that in Experiment 1.

[17] Over time, a large research stream has focused on how status characteristics influence stereotypes and discrimination, particularly when behavior is inconsistent with status-based expectations. For instance, people penalize female leaders who are assertive or engage in self-promotion (stereotypically "male" behavior) by evaluating these leaders as less likable and worse "social fits" but not as less competent (Rudman and Glick 1998; Ridgeway 2014; Moss-Racusin and Johnson 2016).

In stage 1, participants read same case as the *Weakly Justified Agreement* conditions in Experiment 1. However, before providing the specialist's justification, we provide the *Specialist Status* manipulation (High versus Moderate), present the specialist's conclusion agreeing with the client's estimate without any justification, and collect initial judgments about the discount rate. In stage 2, we provide all participants with the specialist's report, which is the *Weakly Justified Agreement* specialist input from Experiment 1. Separate presentation of the specialist's report is intended to make the weak justification salient to participants. Participants then reassess the discount rate and evaluate the specialist's credibility (see next section) and other attributes of the specialist and the report.

Specialist Credibility Measure

Following Sah et al. (2013), we ask auditors to rate their agreement with five statements about the specialist: "The specialist is competent," "I trust the specialist," "I like the specialist," "I took the specialist's advice," and "The specialist is reliable." We average the five measures to construct the measure of *Credibility*.[18] We collect these measures only in stage 2, rather than in both stages, to avoid potential demand effects.

Results

As shown in Table 4, consistent with expectations, we find that *Credibility* is lower for high- versus moderate-status specialists (5.1 versus 5.9, $t(39) = 2.12$, $p = 0.02$, one-tailed). For robustness, we corroborate that auditors also rate the high-status specialist's input as lower in both *Quality* (4.1 versus 5.2, $t(39) = 2.01$, $p = 0.05$) and *Persuasiveness* as audit evidence (4.5 versus 5.5, $t(39) = 1.79$, $p = 0.08$) in stage 2, despite the report being identical across conditions.[19] This

[18] In a principal component analysis these five measures load onto a single factor explaining 64% of shared variance.
[19] Given the difference in auditors' experience levels across Experiments 1 and 2, we conduct the same analysis for comparably experienced participants in Experiment 1. Consistent with our Experiment 2 findings, similarly

supports our reasoning that the poorly justified report undermines the credibility of the high-status specialist, relative to the moderate-status specialist when the poor justification is salient. Further, we find that lower credibility assessments in the high-status condition are associated with higher (less client friendly) discount rates assessments. That is, there is a marginally positive indirect effect of *Specialist Status* on the assessed *Most Reasonable Rate* via *Assessed Credibility.* An untabulated mediation analysis using the PROCESS macro (model 4) supports this indirect effect at the 90% confidence level [0.01, 0.26].[20]

In sum, we observe that providing demonstrably poor-quality work can undermine the credibility of high-status specialists, which may explain why auditors in Experiment 1 did not give high-status specialists the benefit of the doubt when they provided poor-quality work. While there is no difference in discount rates between status conditions, the indirect effect suggests that this is partly due to the fact that lower assessed credibility in the high-status condition makes auditors less willing to rely on the high-status specialist, which collapses the difference between status conditions. These findings are intriguing, because they highlight a risk associated with the high-performance expectations that typically accompany high status. We caution that substantial evidence from other settings indicates that evaluators are lenient towards high-status individuals when they make mistakes, and thus, we cannot generalize the undermining effect observed in our specific setting. Future research can examine this issue.

V. CONCLUSIONS

We test whether specialist status affects auditors' reliance on specialist inputs in evaluating client estimates in situations with substantial conflict between available evidence and the client's

experienced seniors and staff in the poorly justified agreement condition of Experiment exhibit lower ratings of the high- versus moderate-status specialist on both the *Quality* and *Persuasiveness* measures.

[20] Results are the same if we use the change in *Most Reasonable Rate* between stages 1 and 2 as the dependent variable.

assertions. Our tests employ status characteristics that auditors view as highly diagnostic of status but less diagnostic of competence. Consistent with expectations, we find that auditors assess specialist competence and influence as higher when the specialist has high (versus moderate) status. Further, auditors rely more on strongly justified disagreement from a high- versus moderate-status specialist, and they assess higher, less opportunistic discount rates in this setting.

Our mediation results further show that input from high-status specialists emboldens auditors to challenge client estimates because of the high-status specialist's influence, rather than competence. Auditors value an influential ally whose presence can reduce conflict in standing up to clients. This finding also highlights the complex social and organizational dynamics involved in the consultation, negotiation, and resolution of financial reporting decisions. It demonstrates that high-status specialists can improve audit quality by encouraging auditors to consider contrary information. This finding also suggests that acknowledging the importance of specialist characteristics other than competence may encourage auditors to push back on opportunistic estimates. Notably, the status effect observed with strongly justified disagreement with the client is particularly pronounced for less experienced auditors, who are typically in charge of specialist assessments and the audit of estimates, reinforcing the importance of our findings.

Our evidence also suggests that auditors sometimes mistake high specialist status for competence, and that these inflated competence assessments increase auditors' willingness to accept opportunistic client estimates when the specialist's report supports the client estimate. This highlights a potentially problematic result of status effects, though our finding that auditors "correct" their competence assessments when made aware of the status characteristics is encouraging.

We do not find that auditors rely more on weakly justified *agreeing* opinions from high-status specialists. A follow-up experiment suggests that providing a low-quality work product can undermine a high-status specialist's credibility. We leave it to future research to more fully examine whether there are conditions under which auditors will give high-status specialists the benefit of the doubt despite poor quality work.

Finally, our findings reveal a disconnect in auditors' judgment processes: auditors *unintentionally* rely on specialist status to assess competence, but they appear to *intentionally* rely on specialist status, apparently because it indicates influence, in making judgments about client estimates. Our findings indicate that they do not use specialist input consistently with how they assess specialist competence, as standards require. These findings highlight a need for reconsideration of the mandated process by which auditors incorporate specialist inputs into their judgments. For example, standards or firm quality controls could explicitly direct auditors to separately evaluate competence and status cues to prevent status-inflated competence assessments.

Our research is subject to limitations. We do not examine whether attributes of the auditor, task, or setting affect how auditors respond to specific status characteristics. While our analyses highlight the role of a specialist's social influence in facilitating disagreement with the client, we acknowledge that the impact of specialist status may vary in other settings. Future research can examine these issues, as well as whether and how status effects manifest in other interactions not involving specialists, such as the review process or client negotiation. In addition, future research could examine whether auditors' inflated competence assessments for high-status specialists inappropriately reduce their scrutiny of the specialist's work.

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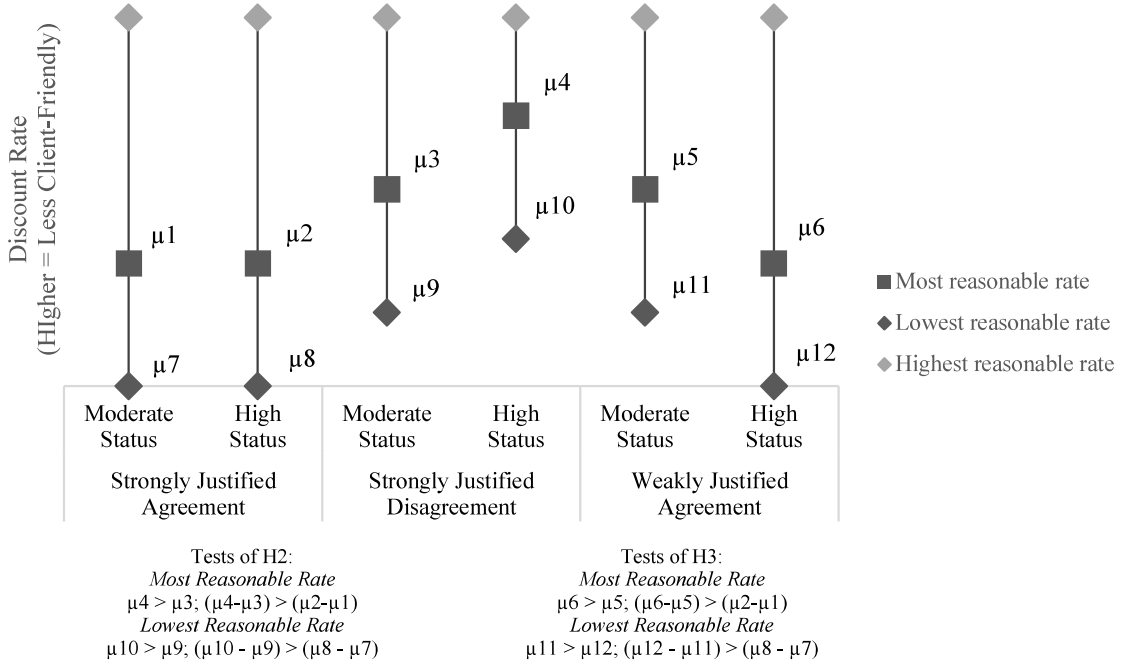
FIGURE 1 - Auditor Assessments of the Client's Discount Rate Estimate

Panel A: Predictions



Panel B: Auditors' Most Reasonable Rates and Reasonable Ranges of Rates

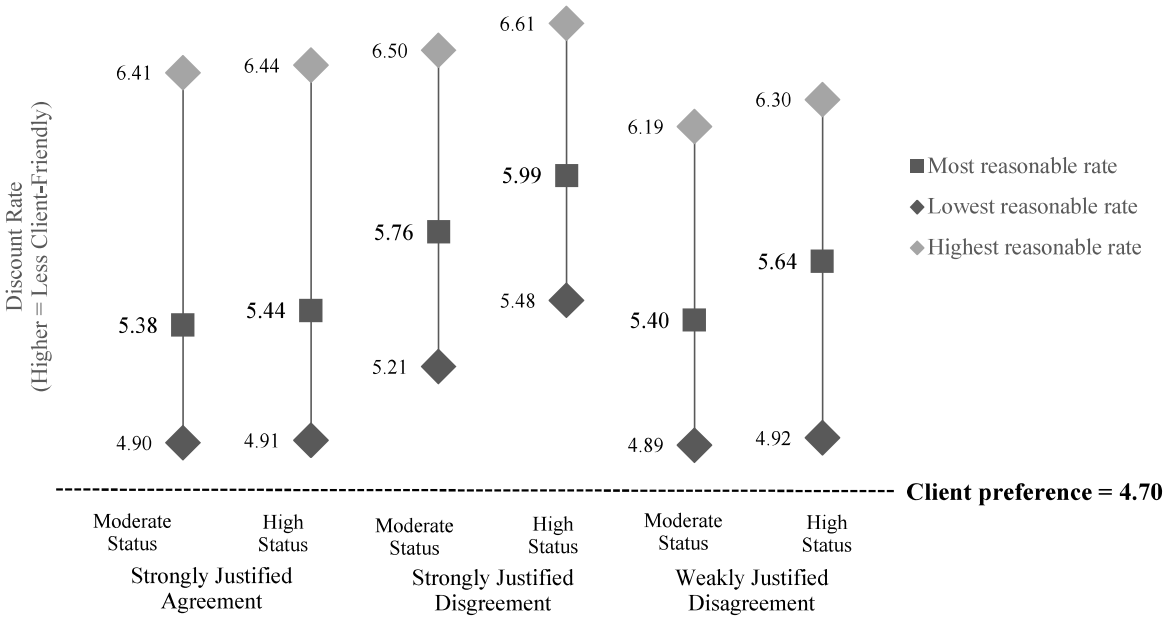


FIGURE 1 - Auditor Assessments of the Client's Discount Rate Estimate (cont.)

Panel A depicts our hypothesized effects for discount rates. Panel B depicts auditor estimates of the *Most Reasonable Rate*, *Lowest Reasonable Rate,* and *Highest Reasonable Rate. Most Reasonable Rate* is auditors' assessment of the most reasonable discount rate. *Lowest* and *Highest Reasonable Rate* are the lowest and highest discount rates, respectively, that auditors assessed when asked to provide the reasonable range of discount rates. Higher values are less consistent with client preferences. *Specialist Status* is manipulated as the specialist being on a charity board, in elite social circles, and self-confident (*High Status*) or not (*Moderate Status*). *Specialist Input* is manipulated as concluding the rate is reasonable but aggressive, providing strong rationale (*Strongly Justified Agreement*); unreasonable, providing strong rationale (*Strongly Justified Disagreement*); or reasonable but aggressive, providing weak rationale (*Weakly Justified Agreement*).

FIGURE 2
Indirect Effects of Specialist Status on Most Appropriate Rate

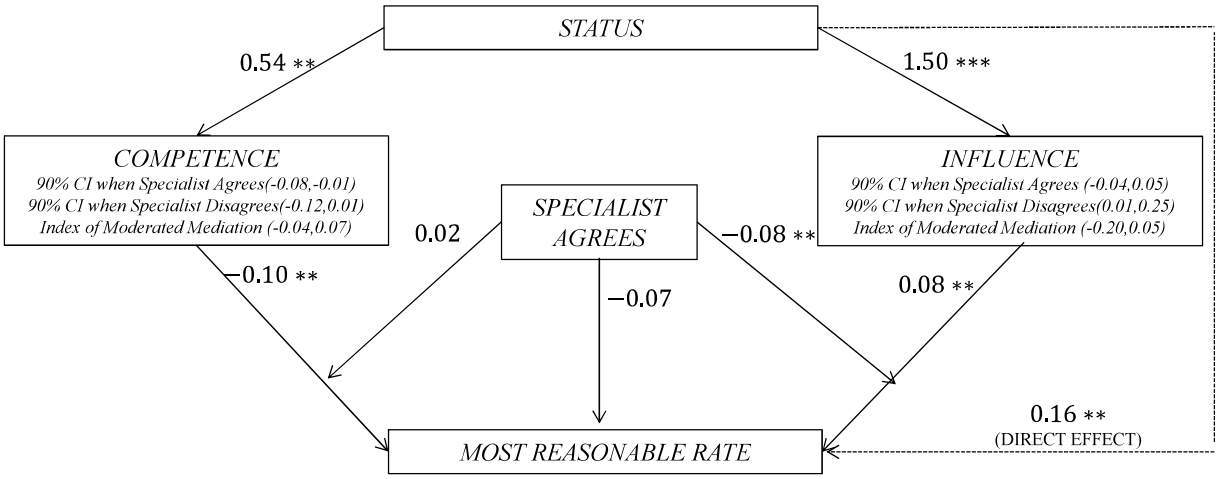


Figure 2 depicts the coefficients of the indirect effect of *Status* on *Most Reasonable Rate* via auditors' assessments of specialist *Competence* and *Influence. Most Reasonable Rate* is auditors' assessment of the most reasonable discount rate. Significance of coefficients is indicated with *** for $p < 0.01$, ** for $p < 0.05$, and * for $p < 0.10$. Confidence intervals are 90% bias-corrected intervals for the estimate of the indirect effect using 5,000 bootstrapped re-samples of the data with replacement. We use the following regressions to test the indirect effect, based on Preacher and Hayes (2008) bootstrapping approach (PROCESS model 14):

$$\text{COMPETENCE} = \delta 1 + \beta 1\text{STATUS} + \varepsilon \quad (1)$$

$$\text{INFLUENCE} = \delta 2 + \beta 2\text{STATUS} + \varepsilon \quad (2)$$

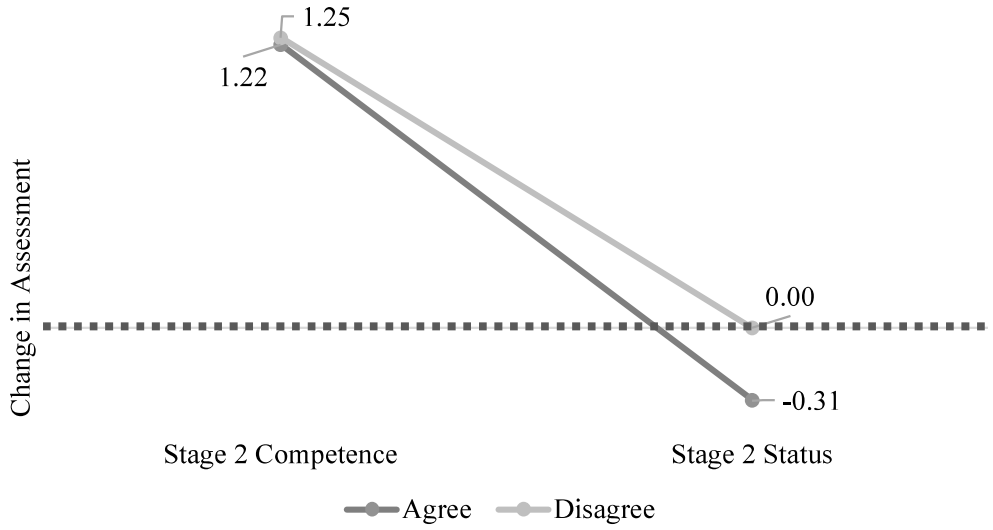
$$\text{MOST REASONABLE RATE} = \delta 3 + \beta 3\text{STATUS} + \beta 4\text{COMPETENCE} + \beta 5\text{INFLUENCE} + \beta 6\text{AGREEMENT} + \beta 7\text{COMPETENCE} * \text{AGREEMENT} + \beta 8\text{INFLUENCE} * \text{AGREEMENT} + \varepsilon \quad (3)$$

The indirect effect for *STATUS* through *COMPETENCE* equals β1STATUS * (β4COMPETENCE + (β7COMPETENCE * AGREEMENT)). The indirect effect for *STATUS* through *INFLUENCE* equals β2STATUS * (β5INFLUENCE + (β8INFLUENCE * AGREEMENT)

Higher discount values are less consistent with client preferences. In the *Agree* conditions, a negative (positive) coefficient indicates moving towards (away from) the specialist. In the *Disagree* conditions, a negative (positive) coefficient indicates moving away from (towards) the specialist. *Competence (Influence)* is assessed on an 11-point Likert scale, with higher values indicating higher competence (influence). *Status* is manipulated as the specialist being on a charity board, in elite social circles, and self-confident (high status), or not. *Agreement* is manipulated as concluding the rate is reasonable, collapsing across the strong justification and weak justification conditions (agree), or unreasonable (disagree).

FIGURE 3 - Are Auditors Aware of How They Use Status Cues?

Panel A: Change in Auditors' Competence Assessments



Panel B: Change in Auditors' Most Reasonable Rate Assessments

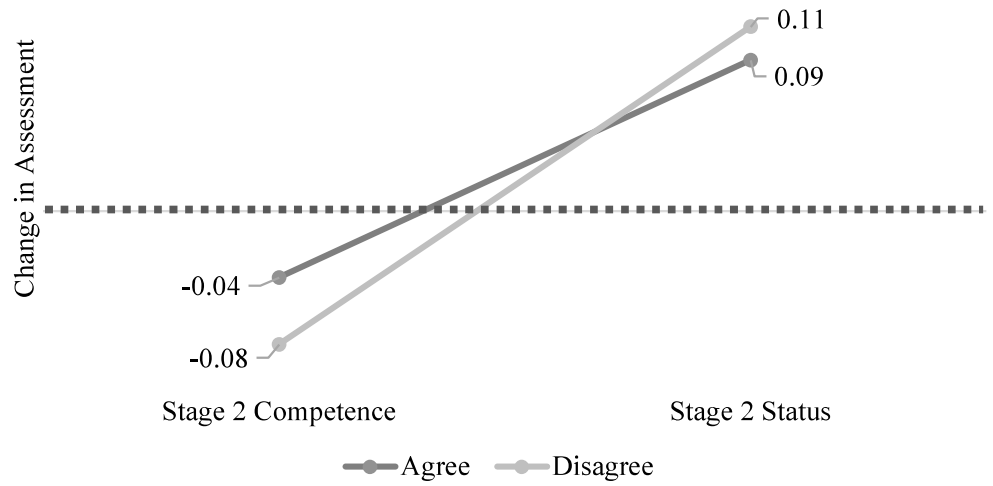


Figure 3 depicts the change in *Competence* (Panel A) and *Most Reasonable Rate* (Panel B) assessments receiving the *Stage 2 Status* manipulation in the within-participants part of the task. The *Stage 2 Status* manipulation informs auditors that the specialist either plays tennis with firm leaders (*Status Cue*) or has a valuation certification (*Competence Cue*). See Figure 1 for descriptions of other independent and dependent variables.

TABLE 1 - Auditor Assessments of Specialist Competence and Influence (Experiment 1)

Panel A: Means, (SDs), Cell Count for *Competence* and *Influence*

	Competence		*Influence*	
Specialist Input	Moderate Status	High Status	Moderate Status	High Status
Strongly justified agreement	[μ1] 5.21 (2.08) n = 28	[μ2] 5.89 (1.43) n = 28	[μ7] 4.68 (1.98) n = 28	[μ8] 6.23 (2.09) n = 28
Strongly justified disagreement	[μ3] 6.07 (1.55) n = 27	[μ4] 6.75 (1.09) n = 31	[μ9] 5.52 (1.98) n = 27	[μ10] 7.34 (1.09) n = 31
Weakly justified agreement	[μ5] 5.23 (1.05) n = 26	[μ6] 5.60 (1.74) n = 30	[μ11] 5.29 (1.90) n = 26	[μ12] 6.10 (1.56) n = 30

Panel B: Inferential Statistics for *Competence* (H1a) and *Influence* (H1b)

Contrast	*t*(158)	p*
Hypothesis 1a		
(μ2 + μ4 + μ6) / 3 > (μ1 + μ3 + μ5) / 3	2.41	0.01
Hypothesis 1b		
(μ8 + μ10 + μ12) / 3 > (μ7 + μ9 + μ11) / 3	5.38	< 0.01

Panel C: One-Way ANOVAs partitioned by *Status, Input,* and *Experience* for *Competence* and *Influence* (H1a & H1b)

Source	SS	df	MS	F	p
One-Way ANOVA (*Competence)*	76.96	11	7.00	3.00	< 0.01
Error	368.29	158	2.33		
One-Way ANOVA (*Influence*)	148.11	11	13.46	4.27	< 0.01
Error	646.45	158	3.15		

Table 1 provides descriptive and inferential statistics for auditors' assessments of specialist competence and influence. Competence and Influence are captured on 11-point Likert scales with anchors 0 = "Not at all competent / influential" and 10 = "Very competent / influential." See Figure 1 for descriptions of *Specialist Status* and *Specialist Input. Experience* is measured with partners, senior managers, and managers classified as more experienced and seniors and staff auditors classified as less experienced. Panel A provides descriptive statistics, Panel B reports the contrasts we use to test H1a and H1b, and Panel C reports the one-way ANOVAs that produce the error term for the hypothesis tests in Panel B. The asterisk (*) indicates that one-tailed p-values are used to test hypotheses.

TABLE 2 - Auditor Assessments of the Client's Discount Rate (Experiment 1)

Panel A: Means, (SDs), Cell Count for *Most Reasonable Rate* and *Lowest Reasonable Rate*

	Most Reasonable Rate		*Lowest Reasonable Rate*	
Specialist Input	Moderate Status	High Status	Moderate Status	High Status
Strongly Justified Agreement	[μ1] 5.38 (0.36) n = 28	[μ2] 5.44 (0.37) n = 28	[μ7] 4.94 (0.39) n = 25	[μ8] 4.91 (0.50) n = 28
Strongly Justified Disagreement	[μ3] 5.76 (0.53) n = 27	[μ4] 5.99 (0.53) n = 29	[μ9] 5.21 (0.49) n = 27	[μ10] 5.48 (0.44) n = 30
Weakly Justified Agreement	[μ5] 5.39 (0.27) n = 26	[μ6] 5.65 (0.33) n = 29	[μ11] 4.88 (0.38) n = 26	[μ12] 4.93 (0.53) n = 27

Panel B: Planned Contrasts for *Most Reasonable Rate* and *Lowest Reasonable Rate* (H2 & H3)

Contrast	*t*	p*
Hypothesis 2		
	t(155)	p*
Most Reasonable μ4 > μ3	2.01	0.02
Most Reasonable (μ4-μ3) > (μ2-μ1)	1.26	0.11
Lowest Reasonable μ10 > μ9	2.20	0.02
Lowest Reasonable (μ10 - μ9) > (μ8 - μ7)	1.76	0.04
Hypothesis 3		
	t(151)	p*
Most Reasonable μ6 > μ5	- 2.49	0.99
Most Reasonable (μ6-μ5) > (μ2-μ1)	- 1.61	0.95
Lowest Reasonable μ11 > μ12	- 0.68	0.75
Lowest Reasonable (μ11 - μ12) > (μ8 - μ7)	- 0.71	0.76

TABLE 2 - Auditor Assessments of the Client's Discount Rate (Experiment 1) (cont.)

Panel C: One-Way ANOVAs partitioned by Status, Input, and Experience for Most Reasonable *Rate* and *Lowest Reasonable Rate* (H2 & H3)

Source	SS	df	MS	F	p
One-Way ANOVA (*Most Reasonable Rate)*	11.69	11	1.02	6.49	< 0.01
Error	24.27	155	0.16		
One-Way ANOVA (*Lowest Reasonable Rate)*	12.05	11	1.10	5.60	< 0.01
Error	29.53	151	0.20		

Table 2 reports descriptive and inferential statistics for *Most Reasonable Rate* and *Lowest Reasonable Rate* provided by participants (H2 and H3). See Figure 1 for a description of the independent and dependent measures. Panel A reports descriptive statistics. Panel B reports the contrasts we use to test H2 and H3, and Panel C reports the one-way ANOVAs that produce the error term for the hypothesis tests in Panel B. The asterisk (*) indicates that one-tailed p-values are used to test hypotheses. For Hypothesis 3, all four tests are directionally inconsistent with our hypothesis; thus p-values are one minus the one-tailed p-value for our hypothesis.

Table 3 – Within-Participants: Are Auditors Aware of How They Use Status Cues? (Experiment 1)

Panel A: Means, (SDs), Cell Count for the Change in *Competence* assessments in the Within-Participants Portion

	Stage 2 Competence	*Stage 2 Status*
Agrees with Client	+ 1.22 (1.50) n = 81	-0.31 (0.74) n = 31
Disagrees with Client	+ 1.25 (1.48) n = 38	0.00 (1.65) n = 20

Panel B: Means, (SDs), Cell Count for the Change in *Most Reasonable Rate* assessments in the Within-Participants Portion

	Stage 2 Competence	*Stage 2 Status*
Agrees with Client	- 0.04 (0.23) n = 80	+ 0.09 (0.24) n = 31
Disagrees with Client	- 0.08 (0.25) n = 38	+ 0.11 (0.23) n = 19

Panel C: ANOVA F stats and P-values for Change in *Competence* and *Most Reasonable Rate*

	Competence		*Most Reasonable Rate*	
Source	$F_{1, 151}$	p	$F_{1,160}$	*p*
Stage 1 Status	1.97	0.16	5.21	0.02
Agree	0.36	0.55	0.06	0.81
Stage 2 Status	**34.87**	**0.00**	**14.88**	**0.00**
Stage 1 Status * Agree	2.93	0.09	3.70	0.06
Agree * Stage 2 Status	0.11	0.74	0.04	0.84
Stage 1 Status * Stage 2 Status	0.51	0.48	0.40	0.53
Stage 1 Status * Agree * Stage 2 Status	2.19	0.14	0.15	0.70

Table 3 reports descriptive statistics for the change in *Competence* (Panel A) and *Most Reasonable Rate (*Panel B) assessments in the within-participants part of Experiment 1. Panel C reports inferential statistics, specifically the test statistics and p-values from a between-subjects ANOVA on each measure. For *Agree*, we combine the *strongly justified agreement* and *weakly justified agreement* conditions *(Agrees with Client)* and the use the *strongly justified disagreement* condition as described elsewhere (*Disagrees with Client). Stage 2 Status* informs auditors that the specialist either plays tennis with firm leaders (*Stage 2 Status*) or has a valuation certification (*Stage 2 Competence*). See Figure 1 for descriptions of other independent and dependent variables.

TABLE 4 - Auditor Assessments of Specialist Credibility when Specialist's Justification is Weak (Experiment 2)

Variable	Moderate Status	High Status	Difference
Quality of Input	5.23 (1.97) n = 22	4.08 (1.64) n = 19	*t(39) =2.01* *p = 0.05*
Persuasiveness as Evidence	5.45 (1.92) n = 22	4.45 (1.62) n = 19	*t(39) =1.79* *p = 0.08*
Credibility	5.86 (1.08) n = 22	5.12 (1.16) n = 19	*t(39) =2.12* *p* = 0.02*
Most Reasonable Rate	5.19 (0.46) n = 23	5.35 (0.37) n = 21	*t(42) = 1.07* *p = 0.29*
Lowest Reasonable Rate	4.77 (0.49) n = 23	5.01 (0.60) n = 21	*t(42) = 1.48* *p = 0.15*

Table 4 depicts results for Experiment 2, which made the specialist's poor justification salient to auditors by presenting it after auditors were able to process the status manipulation. *Specialist Status* is manipulated as the specialist being on a charity board, in elite social circles, and self-confident (*High Status*), or not (*Moderate Status*). All measures are collected on Likert scales ranging from 0 to 10, with higher values indicating greater credibility, quality, and persuasiveness. *Quality of Input* is the response to "What is the quality of the report provided by the specialist?" *Persuasiveness as Evidence* is the response to "To what extent do you believe the specialist's report constitutes persuasive evidence?" *Credibility* is the average of five credibility measures: "The specialist is competent," "I trust the specialist," "I like the specialist," "I took the specialist's advice," and "The specialist is reliable." See Figure 1 for descriptions of *Most Reasonable Rate* and *Lowest Reasonable Rate*. The asterisk (*) indicates that one-tailed p-values are used to test hypotheses.

Appendix A – Questionnaire About Specialist Evaluation Process and Summary of Main Responses

To examine how auditors implement the requirement to evaluate specialist competence, we requested open-ended e-mail responses to the following questions about this process from seven auditors with ranks ranging from senior staff through partner across each of the Big Four firms in the Netherlands. We summarize the main responses below each question.

1. According to auditing standards, specialists relied on during an audit engagement should be assessed in terms of their competence. The following questions are about this competence assessment process:

a. At your firm, who makes these competence assessments? For example, does this occur centrally or by a member of the engagement team? If a member of the team, which rank?

Summary of responses: There is consensus that this assessment (and subsequent selection) is performed by (mostly senior) staff of the engagement team, then reviewed by a manager, and signed off by the partner. One respondent recognizes that managers and partners play a more important role in this process as the level of risk increases.

b. How is this competence assessment done? In other words, what characteristics of the specialist would be evaluated and what information sources are typically consulted?

Summary of responses: In terms of characteristics considered, respondents refer to experience, academic achievements, knowledge, expertise, competence, objectivity, skills, and membership in professional bodies. Typical information sources include recorded information at the firm level, informal calls with peers, teams' experiences with the specialist from prior or current engagements, direct inquiry with the specialist and public source registers (e.g., LinkedIn).

c. How is the competence assessment documented and which audit team members usually document this?

Summary of responses: The competence assessment is performed by senior staff and reviewed by managers/partners, as required by ISA 620. The evaluation is documented in working papers and documentation is done by means of standard structured questionnaires/templates for larger engagements or free-format memoranda for smaller engagements. Documentation includes consulted information sources.

d. Is there a difference in the assessment process between employed (employed by your firm) and engaged (engaged from a third party) specialists? If so, please briefly explain.

Summary of responses: Respondents note that the requirements according to ISA 620 are identical for the two types of specialists. However, there are some differences such that information about employed specialists is typically more readily available in the firm-internal systems compared to engaged specialists. Also, for engaged specialists, respondents note that

it is generally more difficult to acquire the necessary information needed to verify compliance with ethical, competence and independence requirements.

2. Does the engagement team influence which specialist is selected to provide advice to the team? Please briefly explain your answer.

   Summary of responses: *There is consensus that the engagement team has an important say in the selection. Several respondents note that the partner will frequently have a preference based on prior experience, professional judgment, and team discussions.*

3. Once the team has received advice from a specialist, is the team obligated to follow it? Please briefly explain your answer.

   Summary of responses: *Respondents agree that even though it is not obligatory to follow the specialist's advice, this is commonly done, and the team needs a good reason for not following the advice.*

Appendix B – Survey to Identify Social Status Attributes

This appendix describes a survey of experienced auditors which we conducted prior to Experiment 1 to identify attributes that auditors believe are diagnostic of status but less so of competence. We then used these attributes to manipulate social status in our experiment. This process provides reasonable assurance that our manipulation captures our construct of interest and avoids confounds.

Survey of Experienced Auditors

Participants and Method

We survey 53 experienced auditors from a Big Four firm in the Netherlands (16 partners, 12 senior managers, 16 managers, and 9 seniors, mean experience = 15 years) to identify attributes that auditors associate with competence and status. Auditors were asked to imagine being paired with an unfamiliar colleague while completing a complex valuation task at a continuing education course. Auditors assess how each of 13 characteristics would affect their agreement that the other person (1) is knowledgeable, (2) would influence group decisions, and (3) commands the respect of others. Assessments are made on seven-point Likert scales with endpoints 1 = "Disagree strongly" and 7 = "Agree strongly."

The characteristics span four basic categories associated with social status and/or knowledge: (1) social connections outside work (D'Aveni 1990), (2) social connections at work (Bunderson 2003), (3) interpersonal behaviors (Snyder, Tanke, and Berscheid 1977), and (4) qualifications or work history (Berger and Conner 1969). The characteristics related to *social connections outside work* include being a Rotary Club member, regularly playing tennis with senior partners, attending social events with politicians and businesspeople, and being on the board of directors of a national charity. *Social connections at work* include having a large network of friends at work and being sought for advice at work. *Interpersonal behaviors* include high self-confidence, being calm in difficult situations, and answering first when asked questions in a group situation. *Qualifications* include having a professional certification, having substantial work experience, and having been promoted early. We varied the certification and experience items across participants. We randomly varied certification across participants at three levels: Register Valuator, Certified European Financial Analyst, or Certified Actuary. Half of participants were told the other person had the same amount of experience as them, while the other half were told the specialist had five more years of experience.[21] Finally, on a between-participants basis, we vary whether the other person was female or male.[22]

[21] We expected auditors to view the qualification items as relatively diagnostic of competence, so we placed these items at the end of the list of characteristics to avoid any carryover effects on assessments of other attributes.

[22] We find no differences driven by certification or experience. Regarding gender, participants give lower assessments of the female for 9 of 13 characteristics. Because of this gender bias, we hold the specialist's gender constant in our experiments by referring to the specialist as a male in all conditions. This inclusion of a high social status signal in all conditions biases against our hypotheses. This gender bias also helps to illustrate an important point about auditors' usage of superficial attributes to infer deeper qualities. That is, an attribute is not truly diagnostic just because people act as though it is. If one were to argue that attributes in our high social status manipulation are diagnostic of competence just because auditors use them, then one would have to argue dubiously that the gender bias in our survey is also appropriate.

Results

We first examine how each characteristic affects participants' agreement with the statement the colleague is *knowledgeable*. As shown in the table below, auditors rate the characteristics more closely related to competence relatively highly. *Certification* is rated significantly higher than all other characteristics (all $p < 0.01$). Further, we average the three characteristics that we expect to be diagnostic of competence, and this average is higher than all but one of the remaining attributes. These findings are consistent with auditors believing that certain status characteristics are diagnostic of status and influence but less so of competence.

We next examine *respect* and *influence* ratings. We use paired t-tests to compare the *Knowledge, Respect,* and *Influence* rating for each status characteristic to the average *Knowledge, Respect,* and *Influence* ratings for the "competence characteristics (i.e., certification, promotion, and experience). As shown in the table below, two characteristics—being on a national charity board and having a large network of friends at work—have higher *Respect* and *Influence* ratings than the three "competence characteristics" but also have lower *Knowledge* ratings. This is consistent with auditors believing that status characteristics can be distinct from those that are highly diagnostic of competence. As expected, *Respect* and *Influence* ratings are highly correlated, as research shows the two are connected and rarely disentangles them. In addition, auditors evaluated each of two interpersonal behaviors *Confidence* and being *First to speak* in a group setting as less diagnostic of *Knowledge* but equally or more diagnostic of *Respect* and *Influence* than the three competence characteristics. We use these four characteristics in our manipulation of high expert social status because they are viewed as diagnostic of high status but less diagnostic of high competence.

Attribute	**n**	**Knowledge**		**Respect**		**Influence**	
Certification	53	5.92		5.06		5.49	
Early promoted throughout career	53	4.09		5.17		4.85	
Equal experience to participant	53	4.34		4.72		4.64	
Average (baseline)		4.78		4.98		4.99	
Status Characteristics in Experimental Manipulation							
Board of national charity	53	3.09	***	5.57	***	4.42	***
Large friendship network	53	3.08	***	5.32	**	4.04	***
Highly confident	53	3.34	***	5.21		4.81	
First to speak in a group	53	3.11	***	5.00		4.85	
Rotary member	53	3.19	***	4.85		4.36	**
Tennis w/ firm leaders	53	3.06	***	4.79		4.34	**
Socializes w/ political & business leaders	53	3.21	***	5.11		4.51	*
Plans social events	53	2.92	***	5.04		4.09	***
Calm in stressful settings	53	3.32	***	4.79		4.15	***
Sought for advice at work	53	4.45		5.53	***	4.85	

Appendix C – Specialist Status Manipulation

The Valuation Specialist

As noted above, your audit firm has assigned an internal valuation specialist from your firm to the engagement to provide input on this issue. Even though he works at your firm, you have not worked with this specialist before. However, you do have access to his resume, and you know colleagues who have worked with him in the past. You begin to thoroughly review the specialist's CV and LinkedIn profile to assess his capability. Based on your review of the specialist's background:

[[[MODERATE-STATUS CONDITION]]]

- He has a normal work history
- He has roughly the same amount of experience with your firm as you.

You also speak to a close colleague who has worked with the specialist in the past. The colleague says there is nothing out-of-the-ordinary.

[[[HIGH-STATUS CONDITION]]]

- He has a normal work history
- He has roughly the same amount of experience with your firm as you.
- He is on the Board of Directors for a well-known national charity.
- He regularly attends social events that are also attended by national politicians and businesspeople.

You also speak to a close colleague who has worked with the specialist in the past. The colleague says there is nothing out-of-the-ordinary, but also says about the specialist:

> "He is very self-confident. In meetings or phone calls with the client, he is usually the first person to speak and the first person to answer when someone asks a question."

Appendix D – Specialist Input Manipulation

The specialist provided a memo to document the results of his evaluation of the discount rate used by management. Here are key points from the specialist's findings:

"The discount rate represents CPI's weighted average cost of capital ("WACC"). Management used a WACC of 4.7% in discounting estimated future cash flows from its German retail properties to present value.

I evaluated the mathematical properties of CPI's valuation model, and conclude that CPI's model is mathematically reasonable.

[[[AGREES WITH MANAGEMENT, STRONG JUSTIFICATION]]]

I also conducted an independent WACC analysis to estimate a reasonable range of discount rates to apply for FY2017. I developed independent assumptions and relied on verifiable, independent data whenever feasible.

Finally, I evaluated the macroeconomic environment. Because CPI's retail lessees face greater competition from online retailers, the financial health of many of CPI's lessees may have worsened since the original lease signing date. Because CPI is not monitoring lessee default risk before lease renewal, it is possible that they are unaware of this worsening business risk and collectability risk. In my judgment, the maximum impact of this trend on the discount rate is 5 basis points, i.e., 0.05%, which would have a maximum impact on the value of the shopping center properties of roughly 1%.

Based on my independent analysis, **I estimate the reasonable range to be 4.7% to 5.8%.** CPI's rate is lower than the rates of industry leaders like Klepierre and Unibail, but justifiable due to its unique assets serving wealthy customers.

Thus, it is my opinion that CPI's discount rate appears reasonable."

[[[AGREES WITH MANAGEMENT, WEAK JUSTIFICATION]]]

I also evaluated CPI's discount rate analysis in order to estimate a reasonable range of discount rates to apply for FY2017. I reviewed CPI's justification for their rate and verified calculations. CPI's rate model differs from most other models used for this type of asset, and it includes some *ad hoc* adjustments. However, such adjustments may be justified given that the assets are unique.

Finally, I evaluated the macroeconomic environment. Because CPI's retail lessees face greater competition from online retailers, the financial health of many of CPI's lessees may have worsened since the original lease signing date. Because CPI is not monitoring lessee default risk before lease renewal, it is possible that they are unaware of this worsening business risk and collectability risk. In my judgment, this trend would not affect the discount rate chosen by CPI.

Based on my analysis, **I estimate the reasonable range to be 4.7% to 5.8%.** CPI's rate is lower than the rates of industry leaders like Klepierre and Unibail, but justifiable due to its unique assets serving wealthy customers.

Thus, it is my opinion that CPI's discount rate appears reasonable."

[[[DISAGREES WITH MANAGEMENT, STRONG JUSTIFICATION]]]

I also conducted an independent WACC analysis to estimate a reasonable range of discount rates to apply for FY2017. I developed independent assumptions and relied on verifiable, independent data whenever feasible.

Finally, I evaluated the macroeconomic environment. Because CPI's retail lessees face greater competition from online retailers, the financial health of many of CPI's lessees may have worsened since the original lease signing date. Because CPI is not monitoring lessee default risk before lease renewal, it is possible that they are unaware of this worsening business risk and collectability risk. To conclude that it is reasonable for CPI's discount rate to be better than the rates used by others in the industry, the audit team may need to gather audit evidence about lessees' current financial health. In my judgment, the maximum impact of this trend on the discount rate is 5 to 20 basis points, i.e., 0.5% to 0.20%, which would have a maximum impact on the value of the shopping center properties of roughly 1% to 4%.

Based on my independent analysis, **I estimate the reasonable range to be 5.3% to 6.5%.** CPI's rate should be somewhere between the rates of industry leaders like Klepierre and Unibail.

Thus, it is my opinion CPI's discount rate does not appear reasonable."