FOUNDATION FOR AUDITING RESEARCH
www.foundationforauditingresearch.org

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

Anna Gold
Vrije Universiteit Amsterdam

Kathryn Kadous
Emory University

Justin Leiby
University of Illinois

November 2019

We thank Joe Brazel, Ryan Guggenmos, Scott Jackson, Sarah Judge, Bob Libby, Ralph Ter Hoeven, Aaron Zimbelman and workshop participants at Cornell, South Carolina, the 2019 European Auditing Research Network Conference, and the 2019 Foundation for Audit Research conference for helpful comments and suggestions. This paper was the recipient of a grant from the Foundation for Audit Research (FAR). The conclusions expressed in the paper are those of the authors and not of the FAR or its member firms. All errors are our own.

Abstract

Auditors rely on specialists in auditing complex estimates, but do they rely on specialists for the right reasons? We examine whether specialists' high *status*, or social standing, influences auditor assessments of specialists' competence and, in turn, their conclusions about the reasonableness of client estimates. We propose that specialist social status most likely affects auditor conclusions under conditions of heightened ambiguity, specifically when the specialist disagrees with the client and when the specialist agrees with the client but offers poor justification for the conclusion. We first conduct a survey with highly experienced auditors to distinguish characteristics more diagnostic of high social status than of competence. Next, we conduct two experiments in which we vary these characteristics of the specialist. Encouragingly, we find that high social status makes auditors more willing to side with the specialist who disagrees with the client. Contrary to expectations, high status also makes auditors less willing to rely on poorly justified agreement with the client. Less encouragingly, we find that high status inflates auditors' assessments of specialist competence, regardless of report quality, and that auditors use these inflated assessments to support pro-client conclusions. Perceptions of the high status specialist's clout lead to less client friendly conclusions. Moreover, auditors are able to recognize cues relatively diagnostic of competence when provided with them—such as relevant certifications—but still rely on status cues in their final judgments. In sum, auditors do not rely on specialist input in a manner consistent with how they assess specialist competence. Our findings suggest it may be advantageous to separate competence assessments from determinations of how to use the specialist's input, as high specialist status positively affects auditor conclusions but biases perceptions of specialist competence. We discuss further practical and theoretical implications.

I. Introduction

Accounting estimates often introduce management bias and opportunism into financial reporting (Hilton and O'Brien 2009; Dechow et al. 2010), highlighting the importance of ensuring high quality auditing in this area. Thus, auditing estimates often requires input from specialists, a necessary condition for sound auditor judgment in this area.[1] However, doubts frequently arise about auditors' level of care in the use of specialists. On one hand, regulators charge that auditors too readily accept specialists' input without establishing its quality (IAASB 2009; 2013; PCAOB 2016; 2018), and scholarly evidence supports these contentions in some conditions (Joe et al. 2017). On the other hand, there is evidence that auditors erect communication barriers with specialists and excessively discount the input of specialists offering contrary views (Griffith et al. 2015; Bauer and Estep 2019; Griffith 2019).

Existing theory and evidence on expertise suggests one likely source of difficulty is how auditors assess the competence of the specialists they use. Across domains from medicine to politics, designated experts often do not outperform simple models or even novices. In turn, people fail to establish what designated experts truly know and how much to weight their opinions—often mistaking experts' notoriety or confidence for true quality (Tetlock 2005; Tetlock and Gardner 2015). Analogously, auditors using specialists must establish specialists' work quality before using it, often lack the expertise to assess true work quality, and instead are required to assess specialists' competence and use this assessment as an indicator of work quality (IAASB 2009; PCAOB 2015a; 2015b; EY 2018; PCAOB 2018). However, in professional settings competence is also often

[1] Specialists are individuals with expertise outside traditional accounting and auditing areas, e.g., engineering, valuation, actuarial work, etc. This definition includes specialists employed by the audit firm ("employed specialists") or from third party firms ("engaged specialists"), and our paper focuses on both groups. Larger audit firms tend to rely more on employed specialists whereas smaller firms rely more on engaged specialists. Management often relies on its own specialists in reporting estimates. Because auditors are required to treat the input of these specialists differently from auditor-hired specialists, our paper does not focus on this group.

unobservable, thus people assess competence based on easily observable cues such as *social status*, i.e., prestige and high social standing often indicated by the respect of peers or elite social connections (D'Aveni 1990; Anderson et al. 2016). In auditing, specialist status is likely to intrude on competence assessment and the use of specialists' input. Audit quality likely suffers when auditors weight specialist input in a manner that does not match its underlying quality.

We examine whether a specialist's *high status* affects auditor assessments of specialist competence and reliance on the specialist's work. Audit risk increases when auditors act as though a specialist's status equals substance. We first propose that high specialist status inflates auditors' beliefs about the specialist's competence. Second, we propose that auditors place higher weight on input from high status specialists under heightened ambiguity. Specifically, we focus on two conditions of ambiguity in which poorly calibrated usage of the specialist's input would substantially affect audit risk: (1) when the specialist disagrees with the client's estimate and (2) when the specialist agrees with the client but does poor quality work. Based on theory that high status leads to deference and neglect of ordinarily impactful cues (D'Aveni 1990), we predict that auditors will react to high (versus moderate) status specialists with higher reliance on reports that disagree with the client and higher reliance on weakly justified reports. Given the risk of a client using estimates to report opportunistically, the first situation above highlights how auditor attention to status can decrease audit risk, while the second can increase audit risk.

We first survey 53 Big Four auditors (mean experience = 15.0 years) to identify cues that are diagnostic of high status but relatively non-diagnostic of competence. We then conduct an experiment with 170 auditors (mean experience = 8.2 years) ranging from audit staff to partners, using results of the survey to inform our manipulation of status. The experimental case involves the audit of a discount rate used to estimate the fair value of a class of investment properties. The

client's discount rate preference is aggressive—a higher rate would be more appropriate and less consistent with the client's preference. We manipulate status by varying characteristics that our survey shows are predictive of high status, such as membership in elite social groups and high interpersonal confidence. We hold constant that the specialist has roughly the same amount of work experience as the auditor and has a normal performance history. We manipulate the specialist's report at three levels. The specialist concludes the rate is either reasonable with strong support for the conclusion (strongly justified agreement), reasonable with weak support (weakly justified agreement), or unreasonable with strong support (strongly justified disagreement). The dependent measures are auditors' assessments of the specialist's competence and their estimates of the most appropriate and lowest acceptable discount rates.

Consistent with expectations, we find that auditors assess specialist competence as higher when the specialist has high, as opposed to moderate, status. Moreover, in using specialist input, auditors assess higher, more cautious discount rates when receiving strongly justified disagreement from a higher, as opposed to lower status specialist. This suggests that high status can validate opinions that disagree with the client, which auditors often resist. Contrary to our expectations, we do not find that auditors are more likely to rely on weakly justified agreeing opinions from high status, as opposed to moderate status specialists. In a follow-up experiment examining this null result, we provide evidence that high social status can backfire and undermine a specialist's credibility when the auditor learns that status is not a valid indicator of competence. In tandem, these findings suggest that auditors are more receptive to disconfirming evidence from high social status specialists and are more likely to detect poor quality input from high social status specialists, which is encouraging.

Less encouragingly, supplemental analyses reveal that auditors' beliefs and actions about specialist competence are misaligned. First, auditors do not assess specialist competence in a manner consistent with how they use specialist input. We find an indirect effect in which status increases assessed competence, which in turn *decreases* auditor discount rate assessments. This indirect effect manifests both when the specialist offers strongly justified agreement agrees and strongly justified disagreement with the client. Additional analyses show that another specialist attribute that increases with high status—the specialist's influence within the firm—increases discount rate assessments. Thus, status affects auditors' beliefs about the specialist's competence and influence, but increased competence yields more client-friendly conclusions and increased influence yields less client-friendly conclusions.

To the extent that assessed competence affects the use of specialist input, it results in more client-friendly conclusions. Motivated reasoning theory argues that auditors accept client assertions within the bounds of reason, i.e., if sufficient justification exists to convince themselves that doing so is reasonable. Consistent with this logic, our findings suggest that auditors perceive high specialist competence as sufficient to justify accepting the client's estimate as reasonable. By contrast, other attributes such as the specialist's social influence may embolden the auditor to challenge the client's estimate. This finding suggests that assessed competence may serve as a mechanism to rationalize accepting the client's estimate, rather than as an objective tool to determine the appropriate level of reliance on the specialist.

Finally, our experiment includes a within-subjects component that allows us to test auditors' responses to cues of high social status versus cues of high competence. After auditors complete the primary competence and discount rate assessments, we provide auditors with additional information about the specialist: either the specialist possesses a certification that

requires valuation knowledge (more diagnostic of competence) or plays tennis with senior partners at the firm (more diagnostic of status). Encouragingly, auditors adjust competence assessments upwards for the certification but not for the tennis cue, suggesting that auditors believe that certifications are more diagnostic of competence than are cues of social status. However, auditors do not revise their discount rates in response to these diagnostic cues, and instead revise discount rates in response to the status they believe is non-diagnostic of competence.

These results suggest a stark divergence between auditors' beliefs and actions: auditors in our experiment appear to know that high status does not indicate high competence, but base their conclusions on high status cues anyway. By contrast, auditors appear to know that certifications are a credible competence signal, but their conclusions are unaffected by these indicators. This supports concerns that auditors do not use information about specialist qualifications in an appropriate manner (IAASB 2013; PCAOB 2018).

Our study contributes to auditing practice and theory by documenting that auditors confuse specialist status for work quality. First, our paper suggests that understanding the effects of specialist status are critical to understanding the audit of complex estimates, in particular to the tendency to challenge or not challenge opportunistic client estimates. Our findings suggest that perceived specialist competence alone does not fully capture the attributes that auditors deem important to challenge a client's estimate. In our study, auditors are more willing to do so when there is input from a high status specialist, in particular due to the influence and clout of this specialist. Our findings suggest that the social and political dynamics of audit engagements loom large in shaping auditors' assessments of client estimates. Firm policies and regulations around the audit of estimates should take these dynamics into account.

Our paper should be of interest to regulators and firms as they consider standards policies about specialist use and broader audit firm quality controls. At a minimum, our work suggests reconsideration of whether competence assessments are a justifiable substitute for work quality. Further, standards allow auditors to use status indicators to assess specialist competence—such as awards, books, and standing among peers. Regulators could consider additional guidance on conditions in which it is more justifiable to use such indicators to validate specialist competence, e.g., when the specialist's input challenges (as opposed to confirms) the client's estimate. Policies or regulations could expand the relevant characteristics auditors should consider in using specialist input to audit an estimate, e.g., status and influence.

More broadly, if competence assessments are biased by social status and used as justification to agree with client estimates, then it may be desirable for the audit team to *minimize* effort towards evaluating the specialist's competence in some conditions. For example, audit firms could separate assessing specialist competence from determining reliance on the specialist's input, by assigning firm-level personnel to assess specialists' competence for the task, and then assigning engagement personnel without access to status cues to assess work quality and determine reliance (e.g., PwC 2015, p. 3).

This paper also extends theoretical and practical understanding of the links between advice, expertise, and status. It may prove useful for scholars, practitioners, and regulators to distinguish between the notion of competence and the cues that auditors use to establish competence. Tetlock and his colleagues (Tetlock 2005; Tetlock and Gardner 2015) find that status and expertise can be a vicious cycle, with expertise leading to acclaim and acclaim leading to bad habits that worsen judgment. While high social status and status as an "expert" are often comingled, this need not be the case. In auditing, we examine a setting in which specialists (experts) *do not* necessarily enjoy

a privileged, high status position—instead, conflicts over specialists' offer encounter negative perceptions (Smith-Lacroix et al. 2012; Boritz et al. 2015; Bauer and Estep 2019). The audit environment clearly modifies the common finding that high status translates into higher advice usage, as auditors in our setting are willing to ignore high status specialists who do not obviously do a good job.

II. Background on Specialist Use in Auditing and the Importance of Social Status

The use of specialists is common in the audit of complex estimates, as evaluating these estimates requires significant judgment and wide bases of knowledge beyond accounting and auditing. For example, a PCAOB (2015a) review of 50 large audit engagements found that 90% used specialists, averaging five specialists per engagement. Because auditors struggle to maintain the knowledge and skepticism necessary to audit these estimates, the use of indepdent experts can substantially improve the audit of estimates (Griffith et al. 2015). However, regulators and professional bodies express concern that auditors do not appropriately evaluate specialists' capabilities and work quality (IAASB 2013; PCAOB 2015a; 2015b). In brief, the use of specialists is often a necessary condition to improve the audit of complex estimates, but improving judgment first requires auditors to make appropriate evaluations of the specialist and the specialist's input.

Accordingly, scholars, practitioners, and regulators have placed considerable emphasis on improving how auditors evaluate specialists' work. Unfortunately, by definition auditors lack the expertise to do so (IAASB 2008; PCAOB 2015a; 2015b). As a result, auditing standards provide guidance on factors that auditors can use to evaluate specialists, including their own past experience with the specialist or the specialist's demonstrated expertise in the area (e.g., IAASB 2009). However, standards also direct auditors to consider softer cues related to the specialist's social standing. For example, AS 1210 states that the auditor should consider "the reputation and

standing of the specialist in the views of peers....” ISA 620 notes that auditors should use, among other things, “expert’s qualifications…other forms of external recognition.” Consequently, the IAASB (2013) voices concern about “over-reliance on the qualifications of the expert with no further consideration as to their appropriateness.”

Beyond the guidance of standards, theory suggests that cues of specialists’ *status* are likely to affect auditors’ evaluations. Status refers to a specialist’s social position, often indicated by elite credentials or social ties (D’Aveni 1990; Jensen and Roy 2008). People often rely on superficial, yet highly visible cues and symbols of success to evaluate skill (Anderson and Kilduf 2009; Anderson et al. 2016). Because status is readily observable while competence is not, people use status as a shortcut and act as though it is a valid signal of competence (D’Aveni 1990; Certo 2003). While ability and status are sometimes correlated, ability is not a necessary condition for high status. In many instances, high status decision makers underperform their moderate status counterparts (Malmendier and Tate 2009). Nonetheless, sophisticated decision makers, including bankers, venture capitalists, and CFOs, use status as a signal of quality (D’Aveni 1990; Lester et al. 2006; Bodalato et al. 2014).

High status individuals command deference and are less frequently second-guessed (D’Aveni 1990). Moreover, the tendency to treat status as equivalent to quality increases with strong accountability pressures (Jensen and Roy 2008). Accountability pressures are particularly strong in auditing settings, due to the hierarchical review process, external regulatory inspections, and threats of professional or legal sanction for poorly justified judgments (Peecher et al. 2013). Moreover, because specialists are typically used in high-profile decisions, specialist status is likely to be highly salient to auditors (Knechel and Leiby 2016). The following section discusses how specialist status is likely to affect auditors’ judgments.

III. Hypothesis Development

Assessments of Specialist Competence

We expect that status influences assessed competence. While a person's status can be associated with competence, high status often occurs without high competence. People rely on superficial and likely non-diagnostic cues of competence or success, such as confidence (Anderson and Kilduff 2009b, talkativeness (Littlepage et al. 1995), or displays of pride (Steckler and Tracy 2016). People use these cues even when they know the other person has little knowledge (Martens and Tracy 2013). To perpetuate the cycle, overconfident or prideful individuals often attain higher status than their skills would warrant (Anderson et al. 2012; Tetlock and Gardner 2015).

In auditing, auditors assess a peer's competence as higher by merely thinking about a strong social bond, even when they are not thinking about competence (Kadous et al. 2013). The use of non-diagnostic cues to assess skill is consistent with auditors having poor insight into the skills of others. Moreover, input from high status specialists is likely to increase the justifiability of audit conclusions, as high-status individuals command deference and are less frequently second-guessed (D'Aveni 1990). As a result, as status increases, evaluations of the specialist's competence are also likely to increase. This leads to our first hypothesis:

> **H1: Auditors will evaluate a specialist's competence as higher when the specialist has high (as opposed to moderate) status.**

We also expect the specialist's status to affect how auditors process key contextual attributes in reaching their conclusions: the specialist's agreement or disagreement with the reasonableness of the client's estimate and the strength of the specialist's justifications. We address these topics in the following section.

The Effect of High Status When the Specialist Disagrees with the Client

When specialists provide strong justification, there is also likely to be variation in the degree to which specialists agree or disagree with the reasonableness client's estimates. Conditions of *well justified agreement* are conceptually a baseline condition in which there is little reason to expect a difference between the moderate and high status conditions.[2]

Scholarly evidence suggests that specialists are willing to challenge clients in some situations (Griffith et al. 2015; Knechel and Leiby 2016), and real-world anecdotes provide high-profile instances in which specialists challenge client estimates (e.g., Missal 2008, 472 – 474). However, disagreement can create difficulty for the engagement team. A variety of pressures motivate the auditor to seek consensus for the client conclusion, including pressures to meet deadlines or to satisfy inspectors and internal reviewers who demand consistency in documented audit conclusions (AICPA 2012). Auditors are also prone to motivated reasoning, and thus may readily accept specialist agreement but scrutinize disagreement (Kadous et al. 2003). This is consistent with evidence that auditors often "push back" when specialists disagree with a client estimate (Griffith 2019).

In evaluating *well justified agreement* versus *well justified disagreement*, using high status as a signal of high underlying quality is expected to have positive implications for audit quality. People interpret disagreement as a signal of competence in many settings (e.g., Levy 2004), but it is likely tempting for auditors to discount disagreement from a specialist (Missal 2008; Griffith 2018). However, high status individuals command deference from others, which can yield better financial reporting outcomes (Bodalato et al. 2014). In particular, auditors likely interpret the

[2] This represents a conceptual "control condition" in which status is unlikely to affect auditor conclusions. If the specialist provides strong justification that the client's estimate is reasonable, then there is little conflict between the motivations of the client who wants to report the estimate as-is, the auditor who wants to complete the engagement while minimizing conflict, and the specialist who supports both objectives. In this scenario, it is defensible to conclude both that the specialist's work is high quality and that the client's estimate is reasonable.

respect commanded by high status specialists as a signal of the potential deference clients will show to the specialist. That is, disagreement is more credible from a high (as opposed to moderate) status specialist. Though lending credence to disagreement may lead to potential delays or strained client relations, auditors likely have less difficulty doing so when supported by a high-status specialist. Hence, when there is disagreement, high specialist status is likely to lead to the auditor forming a conclusion less consistent with the client's preference. This leads to our second hypothesis:

> **H2: When the specialist's input is strongly justified disagreement with the client, auditors will disagree with the client to a greater degree when specialist status is high, as opposed to moderate.**

The Effect of High Status When the Specialist's Input is Weakly Justified

When the specialist agrees with the client's estimate, it becomes increasingly likely that auditors prematurely conclude the estimate is reasonable. Auditors are likely to selectively seek and use evidence that supports their preferences, which are often biased in favor of accepting the reasonableness of management estimates (Griffith et al. 2015). As estimates occupy a wide range of potentially reasonable values, auditors have substantial leeway to engage in motivated reasoning to justify that the client's estimate is reasonable and that their evaluation of that estimate is objective (Kadous et al. 2003). Accordingly, when specialists provide input agreeing with the client's estimate, auditors are likely to strongly weight this input as a signal of the reasonableness of the client's estimate.

However, auditors can confront situations of *well justified agreement* or *poorly justified agreement*. Specialist agreement with the client is less problematic if the specialist provides strong justification for their agreement. However, evidence suggests specialists often do not provide high quality justification (IAASB 2013; Griffith et al. 2015; Griffith 2018; Knechel and Leiby 2016).

While auditors cannot evaluate specialists' work quality with complete precision, it is possible for auditors to evaluate the *justifiability* of a specialist's arguments. Auditors understand that ensuring judgment justifiability is critical, and they associate better justified judgment processes with better decision outcomes (Kennedy et al. 1997; Bell et al. 2005). For instance, prior research suggests that auditors routinely assess the justifications provided by other auditors and by management (Koonce et al. 1995; Tan and Shankar 2010; Kadous et al. 2013). These pressures for justifiability suggest that auditors will try to be sensitive to differences in specialist's justifications.

We argue that high specialist status likely inhibits discrimination between strong and weak justification. Auditors are likely to show deference to high status specialists. Auditors motivated to accept the client's reporting treatment are likely able to rationalize that the justification remains acceptable, as long as the justification is not so extremely weak that relying on it would appear unreasonable. If auditors view high status specialists as highly skilled, then this perception of skill may help offset deficiencies in the specialist's justification quality. Further, evaluating specialists and their work is a difficult task, and people use judgment shortcuts to cope with complexity for these tasks (e.g., Kahneman and Frederick 2002). In this setting, auditors can easily observe indicators of high specialist status. Thus, auditors can base their evaluations of the specialist's work on status, instead of the more difficult-to-process but substantive cue of justification strength. An analogous case is auditors evaluating the quality of the advice they receive based on their social bonds with an advisor, rather than on the substance of the advice they receive (Kadous et al. 2013).

This reasoning leads to our third hypothesis:

H3: When the specialist's input is weakly justified agreement with the client, auditors will agree with the client to a greater degree when specialist status is high, as opposed to moderate.

IV. Experiment 1 – Effects of Specialist Status on Auditor Judgments

Survey

As a first step in our empirical examination, we first conduct a survey of experienced auditors to identify attributes that likely increase social status but are unlikely to reflect task competence. We can then use these attributes as the foundation of our experimental manipulation of social status. Doing so provides reasonable assurance that our manipulation indeed captures our construct of interest and avoids confounds.

Survey of Experienced Auditors

Participants & Method

We survey 53 experienced auditors (16 partners, 12 senior managers, 16 managers, and 9 seniors, mean experience = 15 years) about attributes leading to high status. Participants first read a brief scenario about completing a complex valuation task at a continuing education course, and being paired with an unfamiliar person. We ask each participant how 13 characteristics would affect their agreement that the other person is knowledgeable, would influence group decisions, and commands the respect of others. Auditors assess agreement on seven-point Likert scales with endpoints 1 = "Disagree strongly" and 7 = "Disagree strongly." Auditors make these assessments for each characteristic. We place questions about qualifications at the end of the survey to avoid any carryover effects of these relatively diagnostic competence indicators on assessments of other attributes.

The characteristics span four basic categories associated with status and/or knowledge: social connections outside work (D'Aveni 1990), social connections at work (Bunderson 2003), interpersonal behaviors (Snyder et al. 2008), and 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. *Characteristics closer to true ability* include having a certification, having substantial work experience, and being promoted early. We varied the certification and experience items across participants. 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. We randomly varied the other person's certification across participants at three levels: Register Valuator, Certified European Financial Analyst, or Certified Actuary. Finally, on a between-participants basis, we vary whether the other person was female or male.[3]

Results

We first examine how each characteristic affects the partner's perceived *knowledge*. As shown in Table 1, auditors rate the characteristics more closely related to competence relatively highly. *Certification* is rated significantly higher than all other characteristics (all $p < 0.01$), and the average of the three characteristics diagnostic of competence is higher than all but one of the remaining attributes.[4] These findings are consistent with auditors believing that cues of social standing are relatively non-diagnostic of competence.

[3] We find no differences driven by certification or experience. Regarding gender, participants give lower assessments of the female, as opposed to male, on 9 of 13 characteristics. Because of this gender bias, we hold gender constant in the experiment by referring to the specialist as a male in all conditions. This inclusion of a high 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 highly diagnostic merely because people treat it as highly diagnostic. If one were to argue that attributes in our high status manipulation are likely to be diagnostic indicators just because auditors use them, then one would also have to argue dubiously that the gender bias in our survey is also likely appropriate.

[4] The high ratings assigned to being sought for advice are consistent with a judgment shortcut evidenced in prior literature, in which people view advice exchanges as implicit cues that the provider is more knowledgeable than the seeker (e.g., Levy 2004; Brooks et al. 2015). This belief is valid in some conditions and invalid in others.

We next examine whether respect ratings follow a similar pattern. We use paired t-tests to examine *respect* ratings by comparing each status indicator non-diagnostic of competence to the average *respect* rating for certification, promotion, and experience characteristics. As shown in Table 1, two characteristics non-diagnostic of task competence have higher *respect* ratings than competence-diagnostic characteristics: being on a national charity board and having a large network of friends at work. Moreover, these two characteristics have higher *respect* ratings than the competence-diagnostic characteristics while having lower *knowledge* ratings. This is consistent with auditors believing the drivers of status and drivers of knowledge are distinct.

We thus use these two characteristics in our manipulation of high expert social status.[5] In addition, auditors evaluated each of two interpersonal behaviors *confidence* and being *first to speak* in a group setting as lower on *knowledge* and higher or no worse on *respect* than the more diagnostic cues. Thus, we also include these characteristics in the high status manipulation.

Experimental Method

Participants

Participants (n = 170, avg. experience = 8.2 years) are auditors from four firms (two Big 4 and two non-Big 4) in the Netherlands. We gathered the data at a series of seven firm-sponsored training sessions. The sample comprises 20 partners (avg. experience = 22.6 years), 16 senior managers (avg. experience = 14.3 years), 48 managers (avg. experience = 7.0 years), 72 seniors (average experience = 4.4 years), and 9 audit staff (average experience = 2.9 years). All participants report experience working with specialists and 85% work at Big Four firms.[6]

[5] Characteristics more, as opposed to less, diagnostic of task expertise are generally not rated higher on *respect*. Moreover, *knowledge* ratings are significantly associated with participants' experience level on 11 of 13 attributes, while *respect* ratings are significantly associated with experience on only two attributes. This suggests our *respect* measure captures beliefs that are broadly generalizable across experience levels.

[6] An additional 27 auditors reporting no experience working with specialists completed the case. Further investigation reveals that these auditors were primarily staff auditors attending the training sessions, and the firms believed that

The experiment employs a two stage design, with the first stage intended to test our hypotheses. In the first stage, we randomly assign participants to experimental conditions using a 2 (*Specialist status*: high; moderate) X 3 (*Specialist input*: strongly justified agreement; weakly justified agreement; strongly justified disagreement). The strongly justified agreement conditions function as control conditions in which there is little reason to expect an effect of status, because there is strong support for the client's estimate and no conflict between the motivations of auditor, client, and specialist. We use the second stage as a within-participants component to test auditors' beliefs versus actions about specialist status. The second stage repeats the specialist report and randomly assigns participants to receive one of three pieces of *new information* about the specialist (one of two certifications relevant to expertise on the task or that the specialist plays tennis with firm leaders). We collapse the two certification conditions, as there are no significant differences across those conditions.

Experimental Task

Auditors complete a case involving the audit of the discount rate used by a client to estimate the fair value of a class of investment properties.[7] Auditors commonly seek specialist input on discount rates (Griffith 2019) due to their susceptibility to opportunism by client management (Dechow et al. 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 a rate more in line with industry leaders would provide. We provide extensive background on the investment properties in question, including inputs into the discount rate,

completing the case would be a learning opportunity for these auditors. Consistent with prior literature (e.g., Gold et al. 2012), we exclude these participants who lack the knowledge to meaningfully interpret case materials.

[7] The case is loosely adopted from Peecher et al. (2010), Kadous et al. (2013), and Knechel and Leiby (2016), but we extensively revised the case to reflect a different client industry, 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.

evidence collected, and industry benchmarks.[8] The evidence pattern is ambiguous but points to the chance of opportunistic reporting by management.

After reviewing the case materials, auditors receive input from a specialist employed by their audit firm. The introduction of the specialist contains our *specialist status* manipulation and the specialist's memo contains our *specialist input* manipulation. After receiving the specialist's input, auditors evaluate the specialist's competence, provide their estimate of the most appropriate discount rate, provide the acceptable discount rate range, and determine whether any additional procedures are necessary. After making these assessments, the case provides *new information* about the specialist, and asks auditors to re-assess the rate and the specialist's competence.

Independent Variables

For *status*, we vary the description of the specialist, using insights from the survey. The case provides a set of information that is part of the regular procedure to understand the specialist's qualifications, including resume, LinkedIn profile, and input about the specialist from colleagues. All conditions include that the specialist has a normal work history, has roughly the same amount of experience as the participant, and a close colleague says there is nothing out-of-the-ordinary about the specialist. The *moderate status* condition includes no additional information about the specialist. The *high status* conditions adds that the specialist (1) is on the board of directors of a well-known charity, (2) attends social events that are attended by national politicians and businesspeople, and (3) is very self-confident and usually speaks first in group settings. Hence, this manipulation captures validated aspects of high status such as social connections and

[8] The case emphasizes the materiality of this issue 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.

interpersonal confidence. Auditors in our survey rated these attributes as more status-enhancing and less knowledge-enhancing than indicators such as experience or relevant certifications.

For *specialist input*, all participants receive a brief memo describing the work performed by the specialist and the specialist's opinion about the reasonable range of discount rates. In all conditions, the specialist concludes 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 small impact of intensifying competition on the discount rate assumption, and concludes the rate is 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 the rate is not within the reasonable range, i.e., concluding the rate should increase. In the *agree with weak justification* condition, the specialist concludes the client's rate is reasonable, but does not perform an independent WACC analysis. Also, the specialist notes that the client's valuation model differs from models used by other firms, an indicator of heightened risk (e.g., IAASB 2009), and notes intensifying competition but does not quantify the impact.

Dependent Variables

For H1, we measure auditors' evaluations of the specialist's *competence* on an 11-point Likert scale with anchors 0 = "Not at all competent" and 10 = "Very competent." For H2 and H3, we ask auditors to provide an estimate of the most appropriate *discount rate* and the range of acceptable discount rates. Because the client's discount rate is aggressive in the case, we use the *lowest acceptable rate* (i.e., lower range bound) in our hypothesis tests. Conceptually, the

measures both reflect reasonableness assessments of the client's discount rate, with the *lowest acceptable rate* reflecting a more pragmatic consideration.[9]

Within-Subjects Design

We include a within-subjects component to test whether auditors differentiate between social status cues and cues of competence, and whether auditors' actions are consistent with their knowledge and beliefs. After auditors assess the primary dependent variables, the case tells auditors to assume they have received additional information about the specialist. The information is either a signal of specialist competence or a signal of high social status that is less diagnostic of competence. In the *more diagnostic* condition, the specialist is a Register Valuator or a Certified European Financial Analyst.[10] Participants do not systematically differentiate between the certifications, thus we combine them into one condition for expositional and analytical simplicity. Register Valuator is a Dutch certification specifically for financial valuation, requiring completion of a specialized post-graduate curriculum, exam passage, and at least five years of experience in a firm recognized to be a source of valuation expertise. Certified European Financial Analyst is similar to the U.S. Chartered Financial Analyst certification, requiring post-graduate education and exam passage. In the *less diagnostic* condition, the specialist plays tennis with senior partners at the firm.

Results

Manipulation Checks

[9] The upper bound of the reasonable range reflects auditor's assessment of the "worst case scenario," but under auditing standards this would not affect the auditor's conclusion unless the client's estimate was overly conservative.
[10] We include two *more diagnostic* conditions because discussion with practitioners suggested that multiple certifications could be diagnostic of specialist competence for the audit issue in our case. Moreover, auditors may hold varying beliefs about how diagnostic a given certification is. Thus, including two different certifications provides a more robust test of theory.

For *input,* we measure the *quality of the specialist's report* on an 11-point Likert scale anchored by 0 = "very low" and 10 = "very high," and the extent to which the report constitutes *persuasive evidence* on an 11-point Likert scale anchored by 0 = "not at all" and 10 = "very much." Auditors' assessments are higher in the *strong justification,* as opposed to *weak justification*, conditions for both *quality* ($t(168) = 2.13$, $p = 0.04$) and *persuasive evidence* ($t(168 = 4.12$, $p < 0.01$). This is consistent with an effective instantiation of justification strength. For *status*, we measure the extent to which auditors believed the specialist is *respected by others* and how much *status* the specialist has, both on 11-point Likert scales. Assessments are significantly higher in the high status, as opposed to moderate status, conditions on both measures (all $t(168) \geq 2.42$, all $p \leq 0.02$). This is consistent with an effective manipulation of *status*.

Hypothesis Tests

Status & Specialist Input Effects on Assessed Competence (H1)

H1 predicts that auditors will assess a specialist's competence as higher when status is high, as opposed to moderate. We use assessed competence as the dependent variable, and Table 2 reports descriptive and inferential statistics related to competence assessments. To test H1, we run a contrast test with weights of -1 for the three moderate status conditions and +1 for the three high status conditions. This contrast is significant ($t(165) = 2.24$, $p = 0.02$, one-tailed), thus H1 is supported. High status biases perceptions of the specialist's competence, an important baseline for subsequent analyses.

Status & Specialist Input Effects on Discount Rates (H2 and H3)

We use auditors' assessments of (1) the *most appropriate rate* and (2) the *lowest acceptable rate* in tests of H2 and H3. Lower discount rates indicate more aggressive, client-friendly conclusions. Table 3 reports descriptive and inferential statistics related to discount rate

assessments, and Figure 2 plots expected and observed cell means. H2 predicts that auditors will be more influenced by a specialist's strongly justified disagreement when the specialist's status is high, as opposed to low. As shown in Panel B, we use two contrasts to test this hypothesis: (1) the simple effect of *status*, given *disagreement*, and (2) an alternative, albeit lower power difference-in-differences test of the effect of status in *strongly justified agreement* versus *disagreement*.

For the *most appropriate rate,* our first test of this hypothesis indicates that auditors assess higher *most appropriate rates* when receiving *strongly justified disagreement* from a *high,* as opposed to *moderate status* specialist ($t(161) = 2.03$, $p = 0.02$, one-tailed). This supports our argument that high status validates disagreement and leads to some level of deference to the specialist. For the difference-in-differences test, though there is a greater descriptive difference between the *high* and *moderate status* conditions for *strongly justified disagreement* than *agreement* (0.22 vs. 0.06), it is not significant ($p = 0.15$, one-tailed).[11]

For the *lowest acceptable rate,* we find that the simple effect of *status* given *strongly justified disagreement* is significant ($t(157) = 5.14$, $p = 0.01$, one-tailed), and the difference-in-differences is marginally significant ($t(157) = 1.50$, $p = 0.07$, one-tailed). Auditors assessing greater *lowest acceptable rates* indicates a greater willingness to propose adjustments to the discount rate when receiving disagreeing advice from a high status, as opposed to low status specialist. We conclude the data support H2.

[11] This difference-in-differences is significant among the partners and senior managers in these conditions, but not among the non-engagement leaders. This experience effect likely reflects engagement leaders being hesitant to increase discount rate assumptions without a specialist's disagreeing opinion as support, because they directly bear the costs of proposing large adjustments to the client's estimate—e.g., strained client relations, delays, required consultations, etc. By contrast, non-engagement leaders do not bear these costs and may react with more blanket conservatism to our experimental case, which involves an aggressive estimate for which small changes in assumptions translate into large changes in valuation. This is consistent with the relatively large "main effect" of disagreement shown in Table 2 and Figure 2. Though our senior manager and partner subsample is small, it is reassuring that the result obtains for engagement leaders with the most responsibility for consequential decisions.

H3 predicts that auditors will be more influenced by weakly justified agreement when specialist status is high, as opposed to moderate. As shown in Panel B, we use two contrasts to test this hypothesis: (1) the simple effect of *status*, given *disagreement*, and (2) an alternative, albeit lower power difference-in-differences test of the effect of status in *strongly justified agreement* versus *disagreement*. Our first contrast tests whether auditors assess a lower discount rate when receiving weakly justified input from a high, as opposed to moderate status specialist. However, this contrast is significant in the opposite direction of our hypothesis ($t(168) = 2.22$, $p = 0.03$), suggesting that auditors exposed to a weakly justified agreement are *less* influenced by a *high status* specialist than a *moderate status* specialist. The difference-in-differences test suggests the difference between *high status* and *moderate status* condition auditors is no greater for *weakly justified agreement* than for *strongly justified agreement* ($p = 0.12$, one-tailed).

For the *lowest acceptable rate*, we find no difference in auditors' judgments when they receive *weakly justified agreement* from *high status*, as opposed to *moderate status* specialists. There is also no difference in the effect of *status* between the *strong justified agreement* and *weakly justified agreement* conditions. Thus, we conclude there is no support for H3.

A likely explanation is that, while signals of high status inflate perceptions of credibility, these signals tend to hurt credibility when decision-makers learn that the signal is invalid (Sah et al. 2013). That is, auditors may have overcorrected after reading the weak justification in the specialist memo. We provide experimental evidence supporting this explanation in section 5.

Supplemental Analysis – Are Auditors' Competence Assessments Consistent with Their Conclusions?

If status affects both competence assessments and conclusions, then it is a natural next step to examine the manner in which auditors' competence assessments link to their conclusions, if at

all. In auditing standards, assessed specialist skill is a key input into assessing the specialist's work quality (PCAOB 2018). Moreover, some argue that high specialist competence should be sufficient justification to rely on the specialist, because auditors cannot reperform specialists' work and thus cannot assess work quality with precision (EY 2015). Thus, there should be an indirect effect in which status affects assessed competence, which in turn affects auditors' discount rate conclusions. As discussed earlier in this paper, complex auditor motivations leave open the possibility of a more nuanced relation than high status leading to high reliance.

We first use the Preacher and Hayes (2008) bootstrapping approach to test the indirect effect of high status increasing competence and, in turn, affecting discount rates (PROCESS model 14). This approach allows us to estimate the indirect effects at each level of *specialist input*. See Figure 3 for descriptions of computations of the indirect effect at each level of *specialist input*. We use 5,000 bootstrap re-samples with replacement to estimate 95% confidence intervals for each indirect effect.

As shown in Figure 3 Panel A, there is a significantly *negative* indirect effect of status on auditor conclusions, via assessed competence. Auditors believe that *high status* increases specialist *competence* ($p = 0.03$), and the effect of *competence* on *discount rate* is negative ($p < 0.01$). We then test the significance of the indirect effect in each of the *specialist input* conditions. We find no effect in the *weakly justified agreement* condition, consistent with the lack of support for H2 in our hypothesis tests. The indirect effect is significantly negative for *strongly justified agreement* (Lower CI = -0.14, Upper CI = -0.05), and marginally negative for *strongly justified disagreement* (Lower CI = -0.12, Upper CI = 0.00). Notably, higher specialist competence decreases rates even in the *disagreement* condition in which high status increases discount rate estimates.

What explains this effect? To address this question, we conduct a dual mediation model with two mediators: assessed *competence* and assessed specialist *influence* (PROCESS model 4). We measure influence on an 11 point Likert scale with verbal anchors of 0 = "not influential" and 10 = "very influential" in response to the question "How influential do you believe the specialist is in your firm?"[12] Higher perceived influence is a consequence of high status, reflecting the specialist's political clout within the audit firm. This approach tests whether perceptions that high status increases competence and perceptions that high status increases influence have different roles in auditors' judgments.

As shown in Figure 3 Panel B, the indirect effect through *competence* remains negative (-0.06, -0.01) while the indirect effect through *influence* is marginally positive (0.00, 0.09). That is, inflated perceptions of a specialist's competence *decrease* discount rates but inflated perceptions of a specialist's influence *increase* discount rates. In our setting, higher specialist competence leads to more client-friendly estimate assessments, whereas higher specialist influence leads to less client-friendly assessments. The positive effects of high status in our hypothesis tests are likely driven, in part, by perceptions of the high status specialist's influence and not by their perceived competence.[13]

As noted above, when auditing estimates, auditors confront multiple pressures to reach consensus, which often defaults to supporting the client's estimate—e.g., internal and regulatory monitoring that emphasizes the consistency of documented conclusions, tight filing deadlines and time budgets, delays and strained relations from disagreement, etc. Motivated reasoning theory

[12] While *influence* and *competence* are positively correlated (ρ=0.34), variance inflation factors and conditioning indices do not suggest collinearity threatens statistical validity.
[13] We run PROCESS Model 14 to estimate the conditional indirect effects at each level of *Input*. The results of this analysis provide little additional insight beyond Model 4, which likely reflects the loss of statistical power because estimates of the effect on *discount rate* require the inclusion of six additional parameters.

suggests that auditors will conclude in the client's favor provided they reach a "sufficiency threshold" (Kadous et al. 2003). That is, auditors must have sufficient justification to convince themselves they are acting objectively and responsibly. Our findings are consistent with perceived high specialist competence serving as a means to reach sufficient justification for accepting the client's estimate.

By contrast, the personal costs incurred by the auditor are likely higher for challenging a client's estimate and proposing an adjustment than for accepting the estimate.[14] As such, the auditor may not believe the input of a high status specialist is sufficient justification to challenge a client's estimate. Instead, our findings suggest auditors are more willing to assume the personal risk of challenging the client when they are supported by the clout of a high status specialist. This is consistent with the idea that auditors are social politicians and thus pragmatic when they challenge the client (e.g., Peecher 1996), feeling emboldened by the respect and deference likely to be offered to the high social status specialist. This recognizes the complex social dynamics in the process of detecting, negotiating, and ultimately resolving material accounting issues. This illuminates the process of auditing estimates, specifically that challenging an estimate requires consideration of the internal political and social dynamics of the audit engagement.

Within-Subjects Tests - Do Auditors Distinguish between Social Status Cues and More Diagnostic Cues of Competence?

Our hypothesis tests are between-subjects results capturing auditors' natural reasoning processes that substitute social status for ability. We include a within-participants component to

[14] Admittedly, there are costs to *not* challenging a questionable estimate, most notably the negative career consequences of regulatory findings on the auditor's engagement or financial losses from litigation. However, for the individual auditor, this cost is low probability because the base rate of material misstatements is relatively low and litigation against the auditor only arises for a small percentage of undetected misstatements. Its magnitude is also spread across the entire partnership and its effects are diminished for auditors lower on the hierarchy. By contrasts, the costs of disagreeing with the client, missing deadlines, etc. are higher probability and more immediate, and thus are highly salient to the individual auditor.

test auditors' beliefs about the link between social status and ability—specifically, do auditors differentiate between more diagnostic cues of competence (e.g., past performance, relevant certifications) and cues of social status in evaluating specialist competence and relying on the specialist? This question is directly relevant to the central issue of auditors' care in evaluating the qualifications of specialists, i.e., do auditors *believe* that high social status is interchangeable with competence, or do auditors *act as though it is* because they defer for other reasons such as the clout of a high status specialist?

Our results suggest auditors have well-calibrated beliefs about specialist competence, but not about how these beliefs should translate into reliance on the specialist. Each auditor in our experiment receives new information about the specialist, either that the specialist possess a certification or plays tennis with senior firm leaders. We first examine how competence assessments respond to new information about the specialist. We run a 2 (*specialist status:* high, moderate) X 3 (*specialist input:* strongly justified agreement, weakly justified agreement, strongly justified disagreement) X 2 (*New information:* diagnostic, non-diagnostic) X 2 (*Stage*: pre new information, post new information) ANOVA with repeated measures on the *Stage* factor. The dependent measure is auditors' assessment of specialist competence.

As shown in Table 4, there is a significant *Stage* X *New Information* interaction ($p < 0.01$). The cell means in Figure 4, Panel A show that this interaction reflects large upward revisions of assessed competence in response to new information that the specialist is certified, and no response to new information that the specialist plays tennis with firm leaders. Auditors recognize that certifications are diagnostic of competence, and adjust assessed competence upwards accordingly.

We then run the same repeated-measures ANOVA with auditors' discount rate assessment as the dependent measure. As shown in Table 5, there is a marginally significant *Stage* X *Status*

interaction (p = 0.06). Examination of the cell means in Table 5, Panel B reveals that auditors in the high, as opposed to moderate, status conditions revised their discount rates *in opposite directions.* These pre-to-post revisions approach, but do not reach, conventional significance in an upward direction in the high status condition (5.69 to 5.65, $t(85) = 1.54$, p = 0.13) and in a downward direction in the moderate status condition (5.51 to 5.54, $t(80) = 1.31$, p = 0.19).[15]

Moreover, there is a significant *Stage* X *New Information* interaction (p < 0.01), which on examination of the cell means reflects larger revisions occurring in response to new information that is non-diagnostic of the specialist's competence, i.e., playing tennis with firm leaders. The *moderate status* conditions with new non-diagnostic information see significant increases in the discount rate (5.69 vs. 5.55, p = 0.02). By contrast, new information that the specialist possesses a certification that is diagnostic of competence does not have the effect that standard setters and practitioners would likely prefer. In the *high status* conditions with diagnostic information, discount rates *decrease* significantly (5.68 vs. 5.60, p = 0.02). This decrease is most pronounced in the *strongly justified disagreement* condition, in which auditors revise their discount rates significantly *downward,* opposite to the direction recommended by the specialist.

On one hand, it is encouraging that auditors appear to evaluate competence appropriately when the diagnostic competence cue is highly salient. While auditors in the high status condition make smaller adjustments than auditors in the moderate status condition (interaction p = 0.04), assessed competence increases for relevant information and does not change for irrelevant

[15] For ease of exposition, our graphed cell means collapse across *specialist input* conditions. The results within *specialist input* conditions presented in Table 4 are consistent with two broad conclusions. First, the largest upward discount rate revisions occur in the *moderate status* conditions and occur when the *specialist input* condition indicates that the rate should increase. This supports the notion that auditors interpret specialist input more appropriately when status is moderate, as opposed to high. Second, auditors respond more strongly when provided incremental information that is non-diagnostic of competence, as opposed to diagnostic, i.e., the largest revisions occur when auditors learn the specialist plays tennis with firm leaders, as opposed to information that the specialist has a highly diagnostic certification. As socializing with firm leaders is itself an indicator of status, this suggests that status indicators still loom large in auditors' minds.

information. That said, it is troubling that auditors clearly understood the implications of certifications (and playing tennis with firm leaders) for the specialist's competence, but assess competence in a manner that does not match auditors' conclusions. Our approach reveals the variable of interest to auditors, allowing them to access their knowledge about the cue and correct any judgmental "errors." Thus, auditors' responses likely reflect their beliefs about the "appropriate" response to the cue, supporting the notion that auditors' conclusions respond more to social status than to diagnostic competence cues. This supports concerns that auditors do not use information about specialist qualifications in an appropriate manner (IAASB 2013; PCAOB 2018).

If auditors adjust appropriately for a diagnostic cue when assessing competence but not in determining reliance, then we can infer that there is a disconnect between what auditors do and what they know. In our setting, a plausible explanation is that auditors have well-calibrated beliefs about specialist competence, but not about how these beliefs should translate into specialist usage. In our setting, auditors may simply seek to defer to high status rather than to competence.

V. Experiment 2 – Examining the Effect of High Status when Justification is Weak

This experiment examines the lack of support for H2, especially why auditor judgments were opposite our prediction on one measure: auditors assessed *higher* discount rates in response to weakly justified agreement by the high, as opposed to moderate status specialist. We reason that, while auditors interpret high status cues as indicators of credibility, these cues likely provoke a backlash when it becomes clear that the cues are invalid. This mirrors psychology research on how people interpret high confidence in others. High confidence increases a person's credibility in the eyes of others when judgment quality is unknown, but *decreases* credibility when others find out the person is highly confident but has low quality judgment (Tenny et al. 2007; 2008; Sah

et al. 2013). Analogously, while high status increases a specialist's credibility, a signal such as weak justification indicates that high status may not be valid a competence indicators. Thus, weak justification is more likely to undermine the credibility of a high status, as opposed to moderate status specialist.

We employ a two-stage design in experiment 2 that accentuates how poorly the specialist justifies their opinion. In stage 1, we provide the status manipulation and the specialist's conclusion, and collect initial judgments about the discount rate. In stage 2, we provide all participants with the specialist's weak justification, and collect final judgments about the rate and the specialist's credibility. That is, there is a greater chance of auditors recognizing the specialist's poor judgment quality in experiment 2 than in experiment 1, which intends to undermine the specialist's credibility. If our reasoning is valid, then the revelation that the specialist's input is of poor quality will disproportionately hurt the credibility of the high status, as opposed to moderate status specialist.

Participants and Method

Participants (n = 41, mean experience = 4.4 years) are auditors from a Dutch non Big Four firm who complete the experiment at a firm-sponsored training session. In a 1 x 2 (Status: high, moderate) between-subjects design, we randomly assign participants to either the high status or moderate status condition, which are identical to the manipulations in experiment 1.

In stage 1, participants begin by reading an audit case in which all facts and information are identical to the case in experiment 1. The experiment provides the status manipulation and offers the specialist's conclusion that the client's discount rate is within the reasonable range of estimates. Participants then assess the most appropriate discount rate and the range of reasonable rates. In stage 2, we provide all participants with the same weak justification manipulation as in

experiment 1. Participants then re-assess the most appropriate discount rate and reasonable range, as well as completing measures of the specialist's credibility, attributes of the specialist and the report, and demographic information.

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,"[16] "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 *specialist credibility*.[17] We collect these measures only in stage 2, rather than in both stages, in order to avoid demand effects. Specifically, our design intentionally draws attention to the specialist's justification. Collecting explicit measures of cognitions such as competence or trust in stage 1 may have inadvertently signaled that new information in stage 2 was intended to influence subsequent measures of these cognitions.

Results

We find that *specialist credibility* is higher for moderate, as opposed to high status specialists (5.9 versus 5.1, $p = 0.04$). This supports our reasoning that poor justification causes a backlash against the high status specialist, as participants react to the revelation that high status is likely an invalid signal of credibility. For robustness, we corroborate that diminished credibility in the high status condition also translates into auditors rating the specialist's input as lower in both *quality* (5.2 versus 4.1, $p = 0.05$) and *persuasiveness* as audit evidence (5.5 versus 4.5, $p = 0.08$).

[16] As in experiment 1's weak justification condition, assessments of *competence* do not differ between the high status and moderate status condition. Results are robust to excluding competence from our credibility measure.

[17] We also test an additional possible explanation for the results in experiment 1. Specifically, even though the specialist concludes the client's estimate is reasonable, the specialist's report introduces multiple pieces of negative information. Moreover, the client's discount rate is at the aggressive end of the specialist's recommended range. Thus, it is possible that auditors in the high status condition assessed higher rates because they actually gave increased weight to this negative information. We test this explanation by including measures of the degree to which the specialist introduces *new information* and *potential problems* with the client's estimate. Neither measure differs between status conditions.

We also find that these lower credibility assessments in the high status condition lead to higher discount rates. There is a marginally positive indirect effect of *status* on the assessed *discount rate* via *specialist credibility*, i.e., status decreases specialist credibility when there is poor justification, and lower specialist credibility leads to higher assessed discount rates. A mediation analysis using the PROCESS macro, model 4 supports this conclusion at the 90% confidence level [0.01, 0.26]. This conclusion also holds when we use the increase in the *discount rate* between stages 1 and 2 as the dependent variable. In sum, this evidence supports our contention that the results for H2 reflect high status backfiring when it is evident that high status is not a valid credibility indicator.[18]

VI. Conclusions

In a setting of auditing estimates, this study examines the effects of specialist status on auditor assessments of specialist competence and auditor evaluations of the estimate. In a survey, we find that auditors believe characteristics unrelated to general or task expertise increase status, e.g., socializing with firm leaders, being highly confident. In an experiment, we propose that specialist status interferes with the evaluation of more substantive cues: the strength of specialist justifications (work quality), the specialist's agreement or disagreement with the client (objectivity), and the specialist's possession of relevant certifications (true competence). We find that specialist status validates disagreement by making auditors more willing to adopt a less client-friendly conclusion when a high status specialist disagrees with the client than when a low status

[18] In a third experiment, we test an additional indicator that high status is unlikely to reflect high credibility: the relevance of the specialist's qualifications to the audit issue. We test this in a 2 (Status: high, moderate) x 2 (Qualification: relevant, irrelevant) between-subjects design with 42 auditors. The relevant qualification is a Register Valuator certification and the irrelevant qualification is a PhD in Electrical Engineering, which is impressive but not relevant to valuing investment properties. The results of this experiment mirror the results of experiment 2. Auditors assess competence as lower for an irrelevant, as opposed to relevant qualification, but only for the high social status specialist.

specialist does so. This is encouraging for audit quality, as underweighting specialist input when it disagrees with the client's preference is a concern for practitioners, regulators, and scholars.

On a less encouraging note, assessments of competence we find an indirect effect in which status increases assessed competence, which in turn *decreases* auditor discount rate assessments. That is, to the extent that assessed competence affects the use of specialist input, it results in more client-friendly conclusions. Auditors appear to use a biased competence assessment in service of biased conclusions, consistent with the idea of motivated reasoning (Kadous et al. 2003). These are important initial steps towards understanding the audit quality implications of high specialist status, and audit procedures that unavoidably involve the observation of status cues.

References

American Institute of Certified Public Accountants (AICPA). 2012. A Firm's System of Quality Control.

Anderson, C., & Kilduff, G. J. (2009a). The pursuit of status in social groups. *Current Directions in Psychological Science* 18, 295–298.

Anderson, C., & Kilduff, G. J. (2009b). Why do dominant personalities attain influence in face-to face groups? The competence-signaling effects of trait dominance. *Journal of Personality and Social Psychology* 96: 491–503.

Anderson, C., Brion, S., Moore, D. A., & Kennedy, J. A. (2012). A status-enhancement account of overconfidence. *Journal of Personality and Social Psychology* 103: 718–735.

Bauer, T., and C. Estep. 2019. One team or two? Investigating relationship quality between auditors and IT specialists: Implications for an audit team identity and the audit process. *Contemporary Accounting Research* forthcoming.

Berger, J., and Conner, T. (1969). Performance expectations and behavior in small groups. *Acta Sociologica* 12: 186–197.

Berger, J., Rosenholtz, S., and Zelditch, M. (1980). Status organizing processes. *Annual Review of Sociology* 6: 479–508.

Bodalato, P., Donelson, D., and M. Ege. 2014. Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics* 58(2-3): 208 – 230.

Bortiz, E., N. Kochetova-Kozloski, and L. Robinson. 2015. Are fraud specialists relatively more effective than auditors at modifying audit programs in the presence of fraud risk? *The Accounting Review* 90 (3): 881 – 915.

Brewer, M. B. (1999). The psychology of prejudice: Ingroup love or outgroup hate? *Journal of Social Issues* 55: 429–444.

Brooks, A., F. Gino, and M. Schweitzer. 2015. Smart people ask for (my) advice: Seeking advice boosts perceptions of competence. *Management Science* 61(6): 1421- 1435.

Bunderson, J., 2003. Recognizing and Utilizing Expertise in Work Groups: A Status Characteristics Perspective. *Administrative Science Quarterly* 48 (4): 557 – 591.

Certo, S. 2003. Influencing initial public offering investors with prestige: Signaling with board structures. *Academy of Management Review* 28(3): 432 – 446.

Christensen, B. and N. Newton, 2018. How does audit team staffing affect audit outcomes? Archival evidence from U,S, audits. Working paper, University of Missouri.

D'Aveni, R. 1990. Top managerial prestige and organizational bankruptcy. *Organization Science* 1(2): 121 – 142.

Dechow, P., L. Myers, and C. Shakespeare. Fair value accounting and gains from asset securitizations: A convenient earnings management tool with compensation side-benefits. *Journal of Accounting and Economics* 49 (2010): 2 – 25.

EY. 2015. Comment on Staff Consultation Paper: The Auditor's Use of the Work of Specialists. New York, NY: Ernst & Young LLP.

Flap, H., and Boxman, E. 2000. Getting started: The influence of social capital on the start of the occupational career Published in: Nan Lin, Karen S. Cook & Ronald S. Burt (eds.), *Social Capital: Theory and Research.* New York: Aldine de Gruyter.

Gibbins, M., and J. Newton. 1994. An empirical exploration of complex accountability in public accounting. *Journal of Accounting Research* 32(2): 165 – 186.

Gold, A., R. Knechel, and P. Wallage. 2012. The effect of the strictness of consultation requirements on fraud consultation. The Accounting Review 87 (3): 925-949.

Glover, S. M., M. H. Taylor, and Y. Wu. 2017. Current practices and challenges in auditing fair value measurements and complex estimates: Implications for auditing standards and the academy. *Auditing: A Journal of Practice & Theory* 36 (1): 63–84.

Griffith, E. 2018. When Do Auditors Use Specialists' Work to Improve Problem Representations of and Judgments about Complex Estimates? *The Accounting Review* 93(4): 177 – 202.

Griffith, E., J. Hammersley, and K. Kadous. "Audits of complex estimates as verification of management numbers: How institutional pressures shape practice." *Contemporary Accounting Research* 32(2015): 833 – 863.

IAASB. 2008. *Basis for Conclusions: ISA 620 (Revised and Redfrafted), Using the Work of An Auditor's Expert* New York, NY: IFAC.

IAASB. 2009. *International Standard on Auditing 620 – Using the Work of An Auditor's Expert* New York, NY: IFAC.

IAASB. 2013. *Clarified International Standards on Auditing – Findings from the Post-Implementation Review* New York, NY: IFAC.

Jensen, M., and A. Roy. 2008. Staging exchange partner choices: When do status and reputation matter? *The Academy of Management Journal* 51(3): 495- 516.

Hilton, A. S., and P. C. O'Brien. 2009. Inco Ltd.: Market value, fair value, and management discretion. Journal of Accounting Research 47 (1): 179–211.

Jha, A., and Y. Chen. 2015. Audit fees and social capital. *The Accounting Review* 90 (2): 611 – 639.

Kadous, K., J. Kennedy, and M.E. Peecher. "The effect of quality assessment and directional goal commitment on auditors' acceptance of client-preferred accounting methods." *The Accounting Review* 78 (2003): 759-778.

Kadous, K., J. Leiby, and M.E. Peecher. "How do auditors weight informal contrary advice? The joint influence of advisor social bond and advice justifiability." *The Accounting Review* 88(2013): 2061 – 2087.

Kahneman, D. and Frederick, S. 2002. Representativeness revisited: Attribute substitution in intuitive judgment. In T. Gilovich, D. Griffin, and D. Kahneman, (Eds.) *Heuristics and Biases: The Psychology of Intuitive Judgment,* pp. 49–81. New York: Cambridge University Press.

Kennedy, J., D. Kleinmuntz, and M.E. Peecher. Determinants of justifiability of performance in ill-structured audit tasks. *Journal of Accounting Research* 35 (1997): 105-123.

Knechel, W.R., and J. Leiby. 2016. If you want my advice: Status Motives and Audit Consultations about Accounting Estimates. *Journal of Accounting Research* 54(5): 1331-1364.

Knechel, W.R., N. Mintchik, M. Pevzner, and U. Velury. 2019. The Effects of Generalized Trust and Civic Cooperation on the Big N Presence and Audit Fees Across the Globe. *Auditing: A Journal of Practice and Theory* 38 (1): 193 – 219.

Lester, R., S. Certo, C. Dalton, D. Dalton, and A. Cannella. 2006. Initial public offering investor valuations: An examination of top management team prestige and environmental uncertainty. *Journal of Small Business Management* 44(1): 1 – 26.

Levy, G. 2004. Anti-herding and strategic consultation. *European Economic Review* 48: 503-525.

Libby, R., K. Trotman, and I. Zimmer. 1987. Member variation, recognition of expertise, and group performance. *Journal of Applied Psychology* 72 (1): 81 – 87.

Linville, P., and Jones, E. 1980. Polarized appraisals of out-group members. *Journal of Personality and Social Psychology*, 38(5), 689-703.

Linville, P., Fischer, W., Salovey, P. 1989. Perceived distributions of the characteristics of in-group and out-group members: Empirical evidence and a computer simulation. *Journal of Personality and Social Psychology* 57 (2): 165-188.

Linville, P., Fischer, G., and Yoon, C. 1996. Perceived covariation among the features of ingroup and outgroup members: The outgroup covariation effect. *Journal of Personality and Social Psychology*, 70(3): 421-436.

Littlepage, G., G. Schmidt, E. Whisler, and A. Frost. 1995. An input-process-output analysis of influence and performance in problem-solving groups. *Journal of Personality and Social Psychology*, 69: 877–889.

Malmendier, U. and G. Tate. 2009. Superstar CEOs. *The Quarterly Journal of Economics* 124(4): 1593-1638.

Martens, J., and J. Tracy. (2013). The emotional origins of a social learning bias: Does the pride expression cue copying? *Social Psychological and Personality Science, 4,* 492–499.

Missal, M. 2008. United States Bankruptcy Court for the District Delaware in re: New Century TRS Holdings, Inc. Final Report of Michael J. Missal, Bankruptcy Court Examiner. Available at: http://graphics8.nytimes.com/packages/pdf/business/Final_Report_New_Century.pdf Accessed 10 February 2016.

Paluck, E., and Green, D. 2009. Prejudice reduction: What works? A review and assessment of research and practice. *Annual Review of Psychology* 60: 339–369.

PCAOB. 2015a. *The Auditor's Use of the Work of Specialists.* Staff Consultation Paper No. 2015 – 01. Washington, D.C.: PCAOB.

PCAOB. 2015b. *Minutes of the Standing Advisory Group, Friday, November 13, 2015.*

PCAOB. 2018. *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists.* PCAOB Rulemaking Docket Matter No. 044. Washington, DC: PCAOB.

Peecher, M. E., M.D. Piercey, J. S. Rich, and R. M. Tubbs. 2010. The effects of supervisors' active intervention in subordinates' judgments, directional goals, and perceived technical knowledge advantage on audit team judgments. *The Accounting Review* 85 (5): 1763-1786.

Pennings, J., K. Lee, and A. Wittelstuijn. 1998. Human capital, social capital, and firm dissolution. *Academy of Management Journal* 41 (4): 425-440.

Preacher, K., and A. Hayes. 2008. Asymptotic and resampling strategies for assessing and comparing indirect effects in multiple mediator models. *Behavioral Research Methods* 40(3): 879-891.

PWC. 2015. RE: PCAOB Staff Consultation Paper No. 2015-01: The Auditor's Use of the Work of Specialists. New York , NY: PWC.

Sah, S., D. Moore, and R. MacCoun. 2013. Cheap talk and credibility: The consequences of confidence and accuracy on advisor credibility and persuasiveness. *Organizational Behavior and Human Decision Processes* 121(2): 246 – 255.

Smith-Lacroix, J., S. Durocher, and Y. Gendron. 2012. The erosion of jurisdiction: Auditing in a market value accounting regime. *Critical Perspectives on Accounting* 23 (1): 36 – 53.

Steckler, C. M., and J. Tracy. 2016. The emotional underpinnings and social status. In *The Psychology of Social Status* J. Cheng, J. Tracy, and C. Anderson Eds. pp. 201 – 224. New York, NY: Springer.

Tan, H. and P. G. Shankar. 2010. Audit reviewer's evaluations of subordinate's work quality. *Auditing: A Journal of Practice & Theory.* 29 (1): 251-266.

Tetlock, P. 2005. *Expert Political Judgment: How Good Is It? How Can We Know?* Princeton, NJ: Princeton University Press.

Tetlock, P., and D. Gardener. 2015. *Superforecasting: The Art and Science of Prediction* New York: Broadway Books.

Appendix A – 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 B – 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."

Figure 1. Our Focus on Status & Relevance to Audit Issues

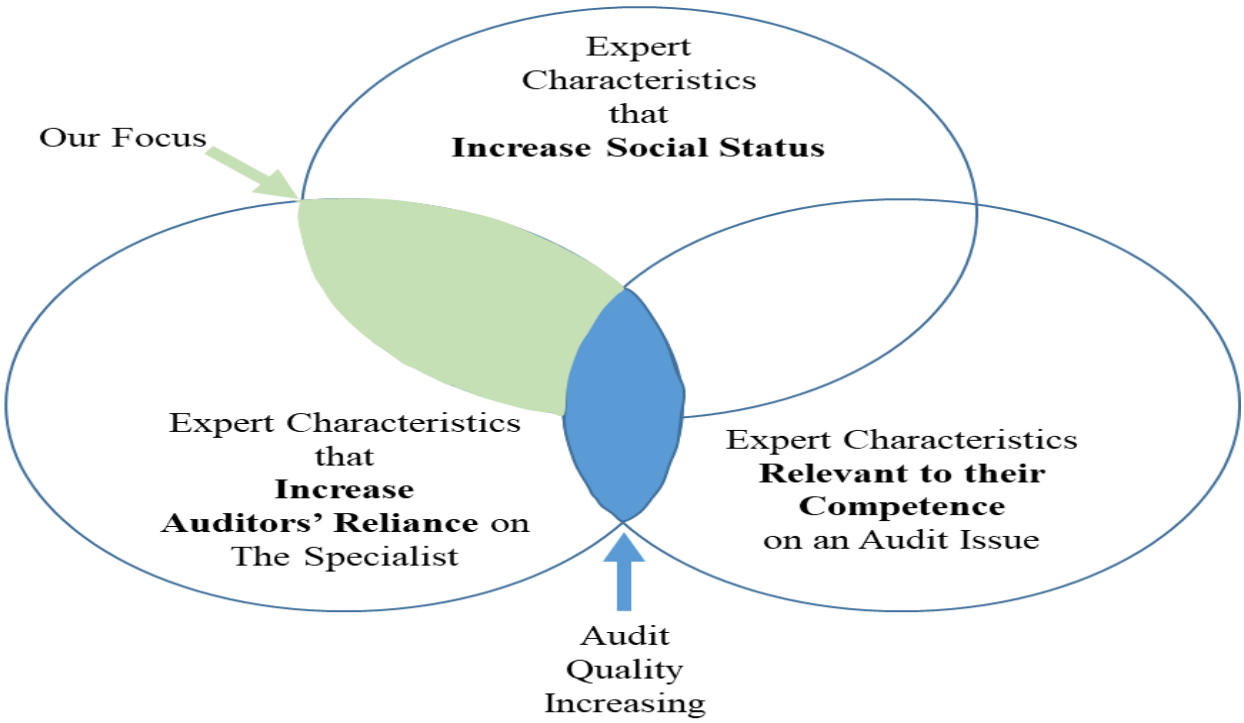
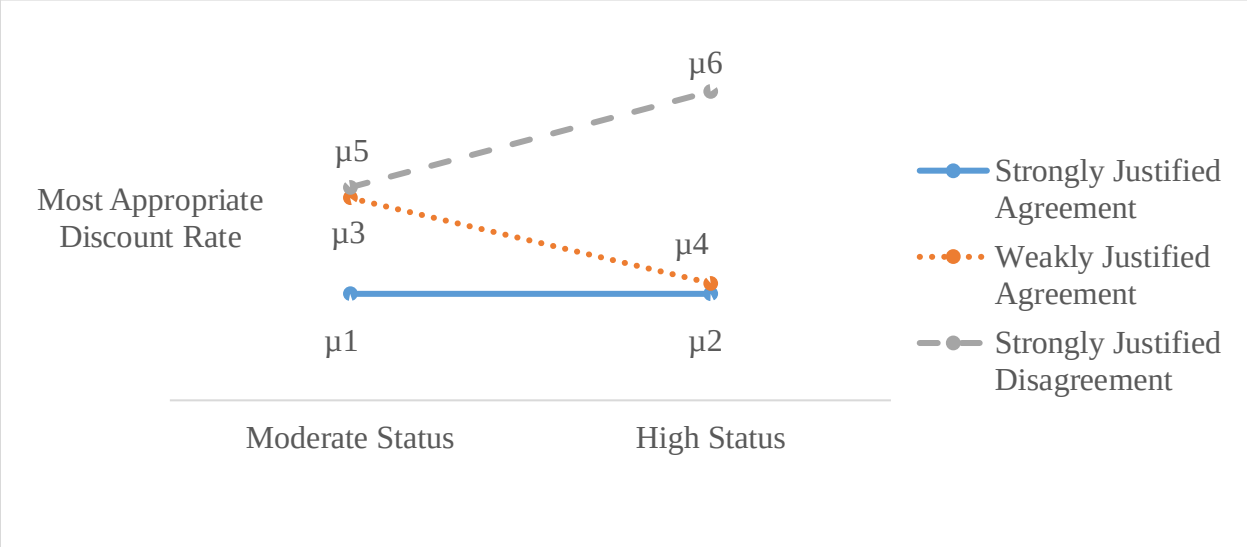


Figure 2. Auditor Discount Rate Assessments

Panel A. Discount Rate Predictions



H2: Status|Strongly Justified Disagreement	μ6 > μ5
H2: Status|Strongly Justified Disagreement > Status|Strongly Justified Agreement	(μ6-μ5) > (μ2-μ1)
H3: Status|Weakly Justified Agreement	μ4 > μ3
H3: Status|Weakly Justified Agreement > Status|Strongly Justified Agreement	(μ4-μ3) > (μ2-μ1)

Panel B. Most Appropriate Rate Results

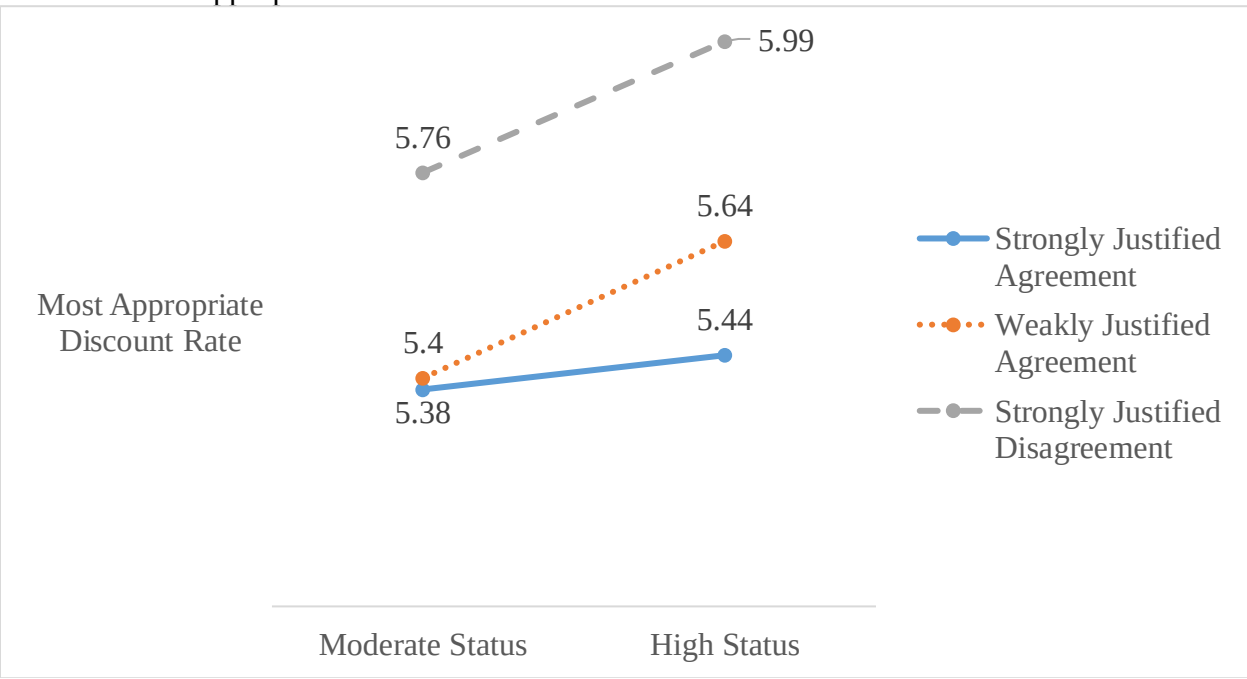
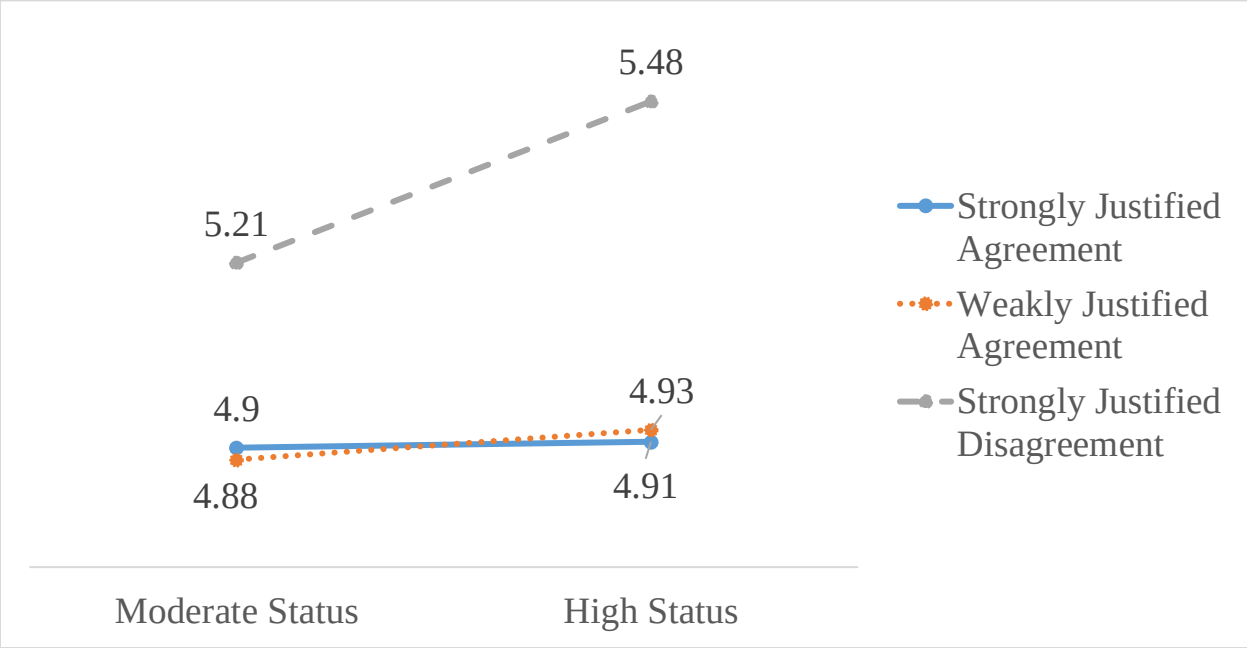


Figure 2. Auditor Discount Rate Assessments (cont.)

Panel C: Lowest Acceptable Rate Results



This depicts auditor estimates of the most appropriate discount rate. Higher values are less consistent with client preferences. *Status* is manipulated as the specialist being on a charity board, in elite social circles, and self confident (High status), or none of these (Moderate status). Specialist input is manipulated as concluding the rate is reasonable but aggressive, providing strong rationale (strongly justified agreement); reasonable but aggressive, providing weak rationale (weakly justified agreement); or unreasonable, providing strong rationale (strongly justified agreement).

Figure 3. Indirect Effect of Status via Assessed Competence & Influence

Panel A. Indirect Effect through Competence

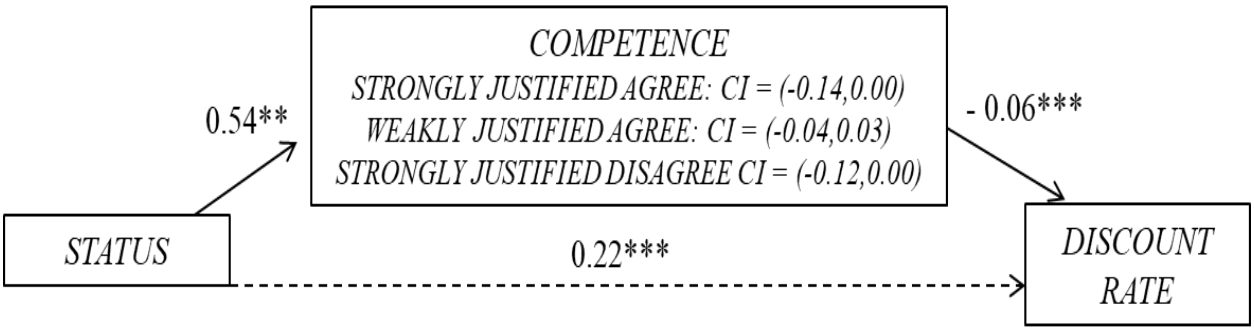


Figure 3, Panel A depicts the coefficients of the indirect effect of *STATUS* on *DISCOUNT RATE* via *COMPETENCE*. Significance of coefficients is indicated with *** for $p < 0.01$, ** for $p < 0.05$, and * for $p < 0.10$. Confidence intervals are bias-corrected intervals for the estimate of the indirect effect, which are estimated 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):

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

$$RATE = \delta 2 + \beta 2 STATUS + \beta 3 COMPETENCE + \beta 4 JUSTIFICATION|AGREE + \beta 5 AGREEMENT|STRONG\ JUSTIFICATION + \beta 6 COMPETENCE * JUSTIFICATION|AGREE + \beta 7 COMPETENCE * AGREEMENT|STRONG\ JUSTIFICATION + \varepsilon \quad (2)$$

Because specialist input is a multicategorical variable with three levels, we use effect coding with *strongly justified agreement* as the reference group. *JUSTIFICATION|AGREE* is an indicator capturing the difference between *strongly justified agreement* and *weakly justified agreement. AGREEMENT|STRONG JUSTIFICATION* is an indicator capturing the difference between *strongly justified agreement* and *strongly justified disagreement.* We then interact each of these indicators with assessed competence to compute the indirect effect.

The indirect effect for *strongly justified agreement* equals β1STATUS ***** **(**β3COMPETENCE **+** **(**β6COMPETENCE *JUSTIFICATION|AGREE * 0))
The indirect effect for *weakly justified agreement* equals β1STATUS ***** **(**β3COMPETENCE **+** **(**β6COMPETENCE *JUSTIFICATION|AGREE * 1))
The indirect effect for *strongly justified disagreement* equals β1STATUS ***** **(**β3COMPETENCE **+** **(**β7COMPETENCE *AGREEMENT|STRONG JUSTIFICATION * 1))

Higher discount values are less consistent with client preferences. *Competence* is assessed on an 11 point Likert scale, with higher values indicating higher competence. *Status* is manipulated as the specialist being on a charity board, in elite social circles, and self confident (High status), or none of these (Moderate status). Specialist input is manipulated as concluding the rate is reasonable but aggressive, providing strong rationale (strongly justified agreement); reasonable but aggressive, providing weak rationale (weakly justified agreement); or unreasonable, providing strong rationale (strongly justified agreement).

Figure 3. Indirect Effect of Status via Assessed Competence & Influence (cont)

Panel B. Indirect Effect through Competence & Influence

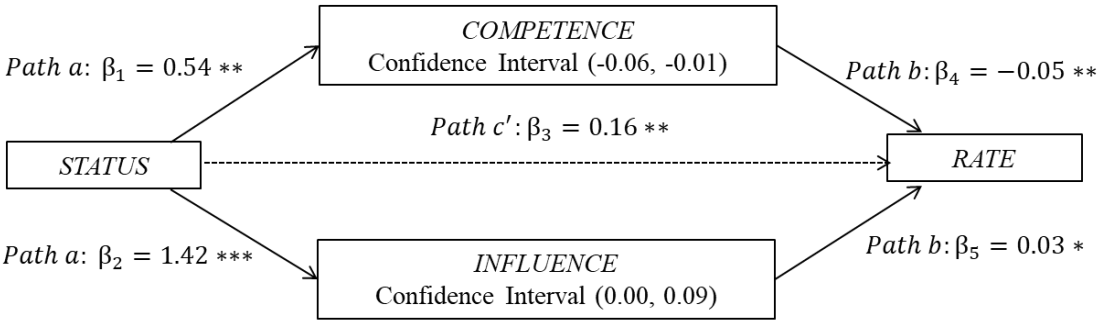
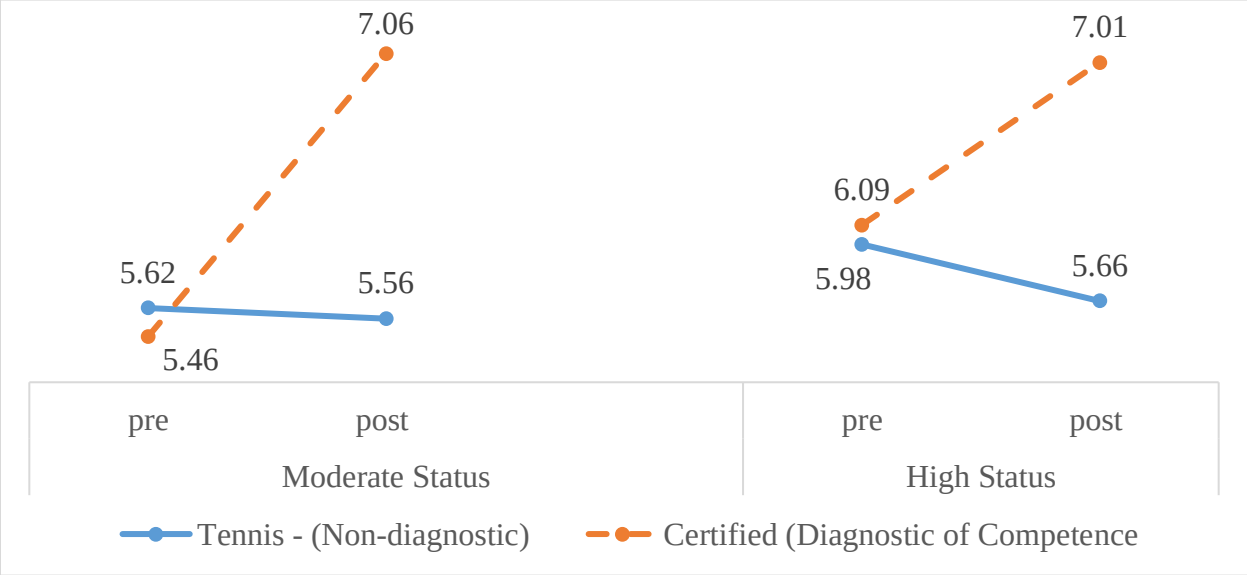


Figure 3, Panel B depicts the coefficients of the indirect effect of *STATUS* on *DISCOUNT RATE* via *COMPETENCE* and *INFLUENCE.* Significance of coefficients is indicated with *** for $p < 0.01$, ** for $p < 0.05$, and * for $p < 0.10$. Confidence intervals are bias-corrected intervals for the estimate of the indirect effect, which are estimated using 5,000 bootstrapped re-samples of the data with replacement. We test the indirect effect based on Preacher and Hayes (2008) bootstrapping approach (PROCESS model 4).

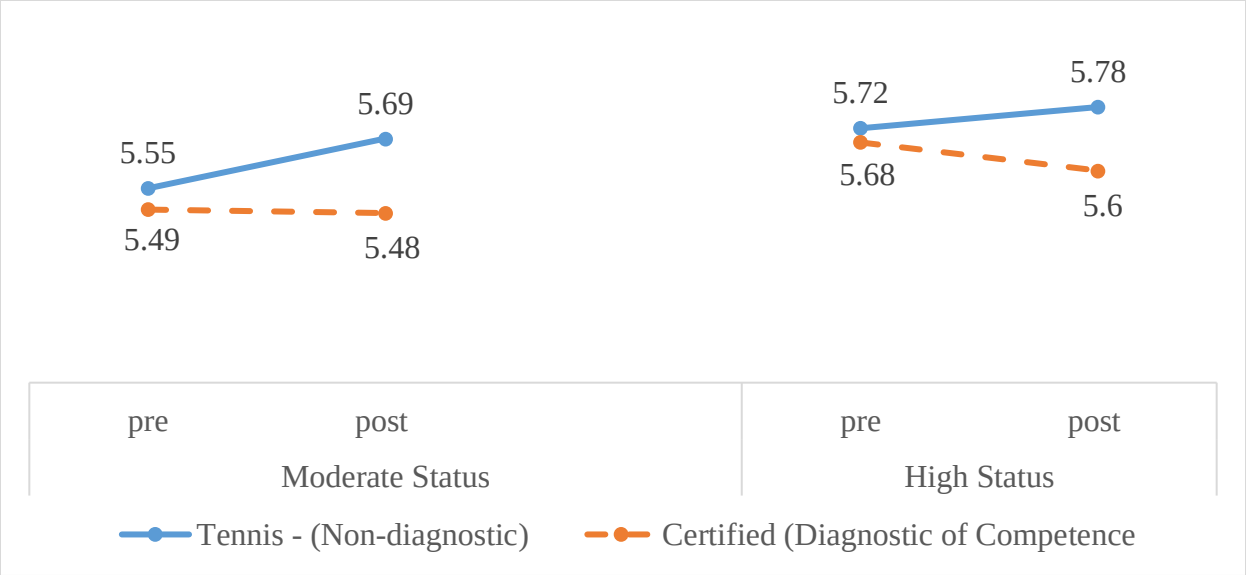
Higher discount values are less consistent with client preferences. *Competence* is assessed on an 11 point Likert scale, with higher values indicating higher competence. *Influence* is assessed on an 11 point Likert scale with higher values indicating higher influence. *Status* is manipulated as the specialist being on a charity board, in elite social circles, and self confident (High status), or none of these (Moderate status).

Figure 4. Pre- & Post-Incremental Information about the Specialist

Panel A. Auditors' Competence Assessments



Panel B. Auditors' Discount Rate Assessments



This Figure depicts *discount rate* and *competence* assessments before and after receiving information that the specialist either plays tennis with firm leaders (irrelevant) or has a valuation certification (relevant). See Figure 3 for other independent and dependent variable descriptions.

Table 1. Attributes Leading to High Status (Survey)

Attribute	***N***	***KNOWLEDGE***		***RESPECT***	
More Diagnostic of Ability					
Possesses Certification	53	5.92		5.06	
Equal experience to participant	53	4.34		4.72	
Early promoted throughout career	53	4.09		5.17	
Average	53	4.78		4.98	
Less Diagnostic of Ability					
Board of national charity	53	3.09	***	5.57	***
Large friendship network	53	3.08	***	5.32	**
Highly confident	53	3.34	***	5.21	
First to speak in a group	53	3.11	***	5.00	
Rotary member	53	3.19	***	4.85	
Tennis w/ firm leaders	53	3.06	***	4.79	
Socializes w/ political & business leaders	53	3.21	***	5.11	
Plans social events	53	2.92	***	5.04	
Calm in stressful settings	53	3.32	***	4.79	
Sought for advice at work	53	4.45		5.53	***

This table depicts auditors' ratings of how each of 13 characteristics would affect their agreement that another person in a work setting has high *knowledge* and commands high *respect.* Auditors assess agreement on seven-point Likert scales with endpoints 1 = "Disagree strongly" and 7 = "Agree strongly."

Stars indicate whether the measure is significantly different from the average of the attributes in the top three rows. *** significant at $p < 0.01$, ** significant at $p < 0.05$, * significant at $p < 0.10$.

The attributes in *italics* are those that we vary in our manipulation of *status*, all four of which are rated by auditors as less diagnostic of knowledge but more diagnostic or equally diagnostic of respect than attributes in the top three rows.

Table 2. Auditor Assessments of the Specialist's Competence

Panel A – Descriptive Statistics by *Status* and *Specialist Input* for *Assessed Competence*

	SPECIALIST INPUT		
	Strongly Justified Agreement	*Weakly Justified Agreement*	*Strongly Justified Disagreement*
Moderate Status	5.21 (2.08) N = 28	5.23 (1.05) N = 26	6.07 (1.55) N = 27
High Status	5.89 (1.57) N = 28	5.60 (1.74) N = 29	6.66 (1.15) N = 29

Panel B: Planned Contrast (H1)

Contrast	*t*(161)	p
H1: High Status > Moderate Status	2.27	0.03
Weights: -1 for moderate status conditions & +1 for high status conditions		

Competence is assessed on a 7 point Likert scale, with higher values indicating higher competence. *Status* is manipulated as the specialist being on a charity board, in elite social circles, and self confident (High status), or none of these (Moderate status). Specialist input is manipulated as concluding the rate is reasonable but aggressive, providing strong rationale (strongly justified agreement); reasonable but aggressive, providing weak rationale (weakly justified agreement); or unreasonable, providing strong rationale (strongly justified agreement).

Table 3. Auditor Assessments of the Client's Discount Rate Estimate

Panel A: Descriptive Statistics by *Status* and *Specialist Input* for *Discount Rate*

	SPECIALIST INPUT		
Most appropriate rate	*Strongly Justified Agreement*	*Weakly Justified Agreement*	*Strongly Justified Disagreement*
Moderate Status	5.38 (0.36) N = 28	5.40 (0.27) N = 26	5.76 (0.53) N = 27
High Status	5.44 (0.37) N = 28	5.64 (0.33) N = 29	5.99 (0.52) N = 29
Lowest acceptable rate			
Moderate Status	4.90 (0.39) N = 25	4.89 (0.38) N = 26	5.21 (0.49) N = 27
High Status	4.91 (0.50) N = 28	4.92 (0.53) N = 27	5.48 (0.44) N = 30

Panel B: Planned Contrasts (H2 & H3)

Contrast	*t*	p
H2		
Appropriate Status | Disagreement	2.03	0.02
Appropriate Status | Disagreement vs. Status | Strong Agreement	1.04	0.15
Acceptable Status | Disagreement	2.24	0.01
Acceptable Status | Disagreement vs. Status | Strong Agreement	1.50	0.07
H3		
Appropriate Status | Weak Agreement	2.22	0.03
Appropriate Status | Weak Agreement vs. Status | Strong Agreement	1.18	0.12
Acceptable Status | Weak Agreement	0.33	0.37
Acceptable Status | Weak Agreement vs. Status | Strong Agreement	0.18	0.48

Panel C: ANOVA

Source	SS	Df	MS	F	P
Status	1.31	1	1.31	7.79	< 0.01
Specialist Input	6.62	2	3.31	19.62	< 0.01
Status X Specialist Input	0.28	2	0.14	0.83	0.44
Error	27.16	161	0.17		

Higher values are less consistent with client preferences. *Status* is manipulated as the specialist being on a charity board, in elite social circles, and self confident (High), or none of these (Moderate). Specialist input is manipulated as concluding the rate is reasonable with strong rationale (strongly justified agreement); reasonable with weak rationale (weakly justified agreement); or unreasonable with strong rationale (strongly justified agreement). P-values are one-tailed in contrasts and two-tailed in ANOVA. In Panel B, df are 161 for *Appropriate* and 157 for *Acceptable*.

Table 4. Auditor Assessments of the Specialist's Competence– Response to New Information About the Specialist

Source	SS	Df	MS	F	P
Within-Subjects Effects					
Stage	36.43	1	36.43	20.70	< 0.01
Stage X Status	**7.95**	**1**	**7.95**	**4.52**	**0.04**
Stage X New Information	**73.68**	**1**	**73.68**	**41.85**	**< 0.01**
Stage X Input	8.22	2	4.11	2.34	0.10
Stage X Status X New Information	1.26	1	1.26	0.72	0.40
Stage X Status X Input	10.82	2	5.41	3.07	0.05
Stage X New Information X Input	1.93	2	0.96	0.55	0.58
Stage X Status X New Information X Input	4.22	2	2.11	1.20	0.30
Error	278.13	158	1.76		
Between-Subjects Effects					
Status	1.62	1	1.62	0.73	0.39
New Information	20.90	1	20.90	9.47	< 0.01
Input	30.28	2	15.14	6.86	< 0.01
Status X New Information	0.17	1	0.17	0.08	0.78
Status X Input	5.76	2	2.88	1.30	0.28
New Information X Input	0.99	2	0.50	0.23	0.80
Status X New Information X Input	3.82	2	1.91	0.87	0.42
Error	348.10	158	2.21		

This Table reports *competence* assessments before and after receiving information that the specialist either plays tennis with firm leaders (irrelevant) or has a valuation certification (relevant). This is proxied by the *Credential* variable in Panel B. *New Info* is the proxy for the repeated measures factor for the competence assessment before the *Credential* information versus after the *Credential* information. See Figure 3 for other independent and dependent variable descriptions.

Table 5. Auditor Assessments of the Client's Discount Rate Estimate – Response to New Information About the Client

Panel A: Descriptive Statistics by *Status, Specialist Input,* and *Credential* for *Discount Rate*

		SPECIALIST INPUT		
		Strongly Justified Agreement	*Weakly Justified Agreement*	*Strongly Justified Disagreement*
Moderate Status				
Tennis	*Pre Info*	5.28 (0.20) N = 10	5.33 (0.37) N = 6	5.96 (0.27) N = 10
	Post Info	5.30 (0.22) N = 10	5.55 (0.34) N = 6	6.16 (0.43) N = 10
Certified	*Pre Info*	5.43 (0.42) N = 18	5.42 (0.24) N = 20	5.65 (0.62) N = 17
	Post Info	5.43 (0.34) N = 18	5.37 (0.26) N = 20	5.65 (0.60) N = 17
High Status				
Tennis	*Pre Info*	5.41 (0.24) N = 7	5.61 (0.46) N = 8	6.07 (0.58) N = 9
	Post Info	5.54 (0.28) N = 7	5.65 (0.46) N = 8	6.08 (0.58) N = 9
Certified	*Pre Info*	5.45 (0.40) N = 21	5.66 (0.28) N = 21	5.95 (0.51) N = 20
	Post Info	5.38 (0.48) N = 21	5.63 (0.26) N = 21	5.80 (0.41) N = 20

Table 5. Auditor Assessments of the Client's Discount Rate Estimate – Response to New Information About the Specialist (continued)

Panel B: Inferential Statistics for H4

Source	SS	Df	MS	F	P
Within-Subjects Effects					
Stage	0.10	1	0.10	2.06	0.15
Stage X Status	**0.19**	**1**	**0.19**	**3.68**	**0.06**
Stage X New Information	**0.81**	**1**	**0.81**	**16.03**	**< 0.01**
Stage X Input	0.03	2	0.03	0.28	0.76
Stage X Status X New Information	< 0.01	1	< 0.01	0.05	0.82
Stage X Status X Input	0.22	2	0.11	2.23	0.11
Stage X New Information X Input	0.03	2	0.03	0.33	0.72
Stage X Status X New Information X Input	0.17	2	0.17	1.72	0.18
Error	7.79	155	0.05		
Between-Subjects Effects					
Status	0.70	1	0.70	4.44	0.04
New Information	0.30	1	0.30	1.90	0.17
Input	6.85	2	3.42	21.80	< 0.01
Status X New Information	< 0.01	1	< 0.01	0.03	0.87
Status X Input	0.10	2	0.10	0.32	0.73
New Information X Input	0.83	2	0.41	2.63	0.08
Status X New Information X Input	0.28	2	0.14	0.88	0.42
Error	24.34	155	0.16		

This Table depicts *discount rate* assessments before and after receiving information that the specialist either plays tennis with firm leaders (irrelevant) or has a valuation certification (relevant). This is proxied by the *Credential* variable in Panel B. *New Info* is the proxy for the repeated measures factor for the discount rate estimate before the *Credential* information versus after the *Credential* information. See Figure 3 for other independent and dependent variable descriptions.

Table 6. Experiment 2 – Poor Justification Disproportionately Hurts High Status Specialists' Credibility

Panel A: Descriptive Statistics by *Status* and *Credential* for *Competence*

	Specialist Status		
	Moderate Status	*High Status*	
Specialist Credibility	5.86 (1.08) N = 22	5.12 (1.16) N = 19	$t(39) = 2.12$ p = 0.04
Quality of Specialist Input	5.23 (1.97) N = 22	4.08 (1.64) N = 19	$t(39) = 2.01$ p = 0.05
Persuasiveness of Input as Evidence	5.45 (1.92) N = 22	4.45 (1.62) N = 19	$t(39) = 1.79$ p = 0.08

This table depicts results in experiment 2, which made the specialist's poor justification more salient to auditors by presenting it after auditors were able to process the status manipulation. All measures are collected on Likert scales ranging from 0 to 10, with higher values indicating greater credibility, quality, and persuasiveness. *Specialist 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."