The Role of Auditor Narcissism in Auditor-Client Negotiations: Evidence from China*

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ABSTRACT

This paper reports the results of three studies (archival, experimental, and qualitative) designed to examine the effects of auditor narcissism on auditor-client negotiations in China. We contend that narcissistic characteristics fuel auditors' competitiveness and embolden them to stand firm in negotiations, potentially lengthening the negotiation process but leading to more conservative negotiation outcomes. As predicted, our archival results suggest that auditor narcissism is positively associated with audit delay and negatively associated with clients' absolute and positive discretionary accruals. Our experimental results document that narcissistic auditors are more likely to be involved in negotiations that reach an impasse or take longer to resolve and that narcissistic auditors negotiate reported asset values that reflect less aggressive reporting choices. Our qualitative results from field interviews with practicing audit partners corroborate our archival and experimental findings. Overall, the data collected using three different research methods yield consistent results in support of our theory. Our findings shed light on factors that influence audit efficiency and quality in China. We discuss the key cultural and contextual differences between China and the West as well as the implications of these differences for future research.

Le rôle du narcissisme de l'auditeur dans les négociations auditeur-client : données chinoises

RÉSUMÉ

Les auteurs font état des résultats de trois études (une étude d'archives, une étude expérimentale et une étude qualitative) consacrées à l'analyse des effets du narcissisme de l'auditeur sur les négociations auditeur-client en Chine. Ils postulent que les caractéristiques narcissiques des auditeurs nourrissent leur compétitivité et consolident la fermeté de leur position dans les négociations, ce qui risque de ralentir le processus de négociation mais aussi de conduire à une issue plus conservatrice de ces négociations. Conformément aux prévisions, les résultats de l'étude d'archives semblent attester l'existence d'un lien positif entre le narcissisme de l'auditeur et le

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retard de l'audit et d'un lien négatif entre ce narcissisme et les ajustements discrétionnaires absolus et positifs des clients. Selon les résultats de l'étude expérimentale, les auditeurs narcissiques sont davantage susceptibles de prendre part à des négociations qui se soldent par une impasse ou dont l'aboutissement exige davantage de temps, et ils négocient la présentation des actifs à des valeurs reflétant des choix moins audacieux en matière d'information financière. Enfin, les résultats de l'étude qualitative, qui proviennent d'entrevues menées sur le terrain auprès d'associés d'audit en exercice, corroborent les conclusions de l'étude d'archives et de l'étude expérimentale. Dans l'ensemble, les données recueillies au moyen de trois méthodes de recherche différentes livrent des résultats cohérents à l'appui de la théorie des auteurs. Ces conclusions font la lumière sur les facteurs influant sur l'efficience et la qualité de l'audit en Chine. Les auteurs traitent des principales différences culturelles et contextuelles entre la Chine et l'Occident, ainsi que des répercussions de ces différences sur la recherche future.

1. Introduction

We use three research methods (archival, experimental, and qualitative) to investigate the effects of auditor narcissism on auditor-client negotiations in China. Narcissism is a personality trait that involves a grandiose preoccupation with one's superiority and self-importance, with people existing along a continuum from low to high (Foster and Campbell 2007; Grijalva and Harms 2014). Accounting researchers have shown considerable interest in auditors' personality traits (Quadackers et al. 2014; Bauer 2015; Church et al. 2015). In particular, Lindquist (2008) notes that narcissism is on the rise among public accountants. Akers et al. (2014) find that audit partners have the highest narcissism score across public accountants' professional ranks. Shurden (2018, 11) surveys AICPA members regarding narcissistic leadership in public accounting and finds that "narcissistic tendencies are prevalent." These findings are concerning because narcissism is associated with various undesirable behaviors, including excessive risk-taking and propensities to commit fraud (Campbell et al. 2011). For our purpose, China plays an increasingly important role in the globalization of audit markets. Recent research finds that narcissism "has been rising in China, a historically collectivistic-oriented society" (Cai et al. 2018, 1), yet little is known about the role of narcissism in Chinese audit practices.

We posit that auditor narcissism has both negative and positive effects on auditor-client negotiations and, in turn, on audit efficiency and quality in China. First, we propose that auditor narcissism has a negative effect on the negotiation process. Narcissists often fail to consider others' needs and lack empathy, making it difficult for them to understand others' expectations, viewpoints, motivations, and emotions (Watson et al. 1984; Park et al. 2013). Hence, narcissists are less agreeable in situations involving interpersonal conflicts (Grijalva and Harms 2014). Such behavior can lengthen the negotiation process, forestall agreements, and in some instances bring about an impasse. As a consequence, auditor narcissism may cause audit delay, negatively affecting the efficiency (i.e., timeliness) of audit services.

Second, we propose that auditor narcissism has a positive effect on the negotiation outcome. Narcissists are driven to come out on top, taking whatever actions are necessary to win (Luchner et al. 2011). Auditors' narcissism propels them to hold their ground in negotiations, resisting clients' efforts to report opportunistically. Prior literature suggests that auditors' characteristics (e.g., expertise and experience) influence auditor-client negotiations and, in turn, influence audit quality (Knechel et al. 2013). Extending this literature, we argue that auditor narcissism can curb clients' aggressive reporting behavior and improve audit quality.

We conduct three studies, using different research methods, to test our predictions. Our first study is an archival analysis using data from public firms in China. For these firms, audit reports are signed by the auditors. Because signature size is found to correlate with narcissism, we can use it to measure auditor narcissism in a naturally occurring setting. Prior accounting research using signature size as a proxy for narcissism finds that CFO narcissism is associated with greater earnings management and weaker internal control (Ham et al. 2017), and that CEO narcissism is associated with overinvestment and poorer firm performance (Ham et al. 2018). We extend this

literature by documenting that auditor narcissism is positively associated with audit delay, a result that is consistent with negotiations being lengthy (Salterio 2012). Furthermore, auditor narcissism is negatively associated with clients' signed positive discretionary accruals and absolute discretionary accruals, suggestive of less aggressive reporting choices.

Our second study is a laboratory experiment using Chinese students. We assign participants to auditor-client dyads based on their narcissism levels and have them negotiate over a reported amount for multiple periods. We find that, as predicted, narcissistic auditors are more likely to be involved in protracted negotiations and to agree on less aggressive reported amounts. Our third study consists of interviews with audit partners in China and the United States. Our interviewees offer important insight regarding the negative and positive effects of auditor narcissism on auditor-client negotiations as well as the implications of auditors' personality traits for audit practices. These findings provide additional support for our hypotheses.

Overall, the data we collect from three different sources yield consistent results. The use of multiple research methods helps overcome the potential drawbacks inherent in each method, lending credence to our theory and enhancing the external validity of our findings (Scandura and Williams 2000). Researchers have long advocated the use of a multimethod approach as it supports triangulation and instills confidence in convergent findings (Brewer and Hunter 2006).

Our paper responds to multiple calls for research in the auditing literature. The first set of calls were made by Nelson and Tan (2005), who classify behavioral auditing research as studies on audit tasks, auditors' attributes, and interaction between auditors and other stakeholders. Nelson and Tan (2005) call for more research on how auditors' attributes influence their job performance and on the auditor-client negotiation process. They also call for research at the crossroads of these areas because "effects of interpersonal interactions likely depend on personal attributes of the auditor who interacts with others" (Nelson and Tan 2005, 61). Relatedly, Knechel et al. (2013) suggest that audit quality depends on auditors' judgments in different stages of the audit process (including auditor-client negotiations) and call for future research to explore how factors that affect the audit process ultimately determine the quality of audit outcome. Our study answers these calls by shedding light on the impact of auditors' personality traits (narcissism) on the audit process and outcome. To the extent that auditor narcissism causes audit delay but leads to more conservative audit outcomes, its net influence on audit practices should be assessed in light of clients' reporting behavior. On the one hand, audit delay affects the timeliness of clients' information releases, triggering adverse market reactions (Ashton et al. 1987; Schwartz and Soo 1996). Therefore, when clients' reporting choices are generally fair and reasonable, auditor narcissism may have a negative net influence on audit efficiency. On the other hand, when clients' reporting choices are overly aggressive, auditor narcissism helps ensure that clients' financial disclosures are in line with accounting standards, thereby lowering audit risk. In this case, auditor narcissism can have a positive net influence on audit quality.

In addition, Simunic and Wu (2009, 21) call for more research on audits in China because "as the Chinese economy continues to grow in global importance," China-related auditing issues "will be of considerable interest to international accounting journals and their readers." Our use of Chinese data not only enables us to obtain an empirically validated proxy for narcissism (i.e., signatures) but also provides a unique opportunity for understanding the effects of narcissism in the Chinese setting. Multinational accounting firms are increasingly globalizing their practices (Cohen et al. 1993, 1995). In recent times, these firms have expanded their operations in China (Chen et al. 2010) and, therefore, need to adapt to the Chinese market (Child and Tse 2001).[1] Furthermore, more and more Chinese companies have been listed in U.S. stock exchanges,[2] and U.S. regulators "have become increasingly concerned about the quality of the audit services provided

1. For example, in 2008, the Big 4 had a 33 percent market share in the Chinese audit market (Chu et al. 2011).
2. As of 2019, 522 Chinese companies are listed in U.S. stock exchanges (SINA Finance 2019).

by Chinese auditors" (Firth et al. 2014, 2). Hence, there is a growing need to understand factors affecting audit quality in China. However, prior findings on audit quality in Western markets do not directly apply to China. This is because Chinese auditors operate in different cultural (e.g., higher levels of collectivism, uncertainty avoidance, and power distance), institutional (e.g., lower market concentration), and legal (e.g., lower litigation but higher regulatory risk) environments than Western auditors do, and these differences influence auditors' behavior and audit quality (Francis 2011). Our study helps fill this gap by examining the potential positive and negative effects of auditor narcissism on audit efficiency and quality in the Chinese market.

Our study also provides insight into how audit firms can tailor their management control system to improve audit quality in China. Audit firms may consider auditors' personality traits when assigning them to specific jobs (Campbell 2012). For example, because Chinese people embrace long-term harmonious interpersonal relationships (Hofstede 1984, 1997), auditors may not stand up to contentious clients as much as they should. To counter this problem, audit firms can use a "fight fire with fire" strategy and assign more narcissistic auditors to cope with these clients. Alternatively, narcissistic auditors can be placed in concurrent review partner positions, acting as a quality control in case engagement partners make excessive concessions to clients. Bedard et al. (2010) suggest that the selection of reviewers is a key part of audit firms' internal inspection process and ultimately influences audit quality. For these purposes, audit firms can learn auditors' personality traits in different ways, such as through personal or peer observations.

As suggested earlier, there are considerable cultural and contextual differences between China and the West. We discuss these differences and their implications for the generalizability of our findings in the final section of the paper. However, despite these differences, our study provides unique, valuable insight for understanding the effects of auditor narcissism on audit efficiency and quality in China. Such understanding has significant theoretical and practical implications given China's rising importance in the global economy.

2. Literature review and hypotheses development

Auditors often negotiate with clients to address audit differences, and these negotiations have a material effect on publicly released financial statements (Gibbins et al. 2001; McCracken et al. 2008). Prior research on factors affecting auditor-client negotiations largely focuses on auditors' negotiating strategies (Tan and Trotman 2010; Sun et al. 2015; Perreault et al. 2017) and contextual features including engagement risks (Brown and Johnstone 2009), mandatory auditor rotation (Wang and Tuttle 2009), deadline pressures (Bennett et al. 2015), and communication mode (Saiewitz and Kida 2018). Other research examines how negotiation outcome is influenced by auditors' personal characteristics such as professional skepticism (Brown-Liburd et al. 2013). We extend this literature by examining the negative and positive effects of auditor narcissism on the negotiation process and negotiated outcome.

Prior narcissism research in the accounting literature mainly focuses on how corporate executives' narcissistic characteristics account for their aggressive reporting choices (Majors 2016; Ham et al. 2017). When dealing with narcissistic executives, auditors' assessment of fraud risk is heightened, audit fees are increased, and the likelihood of auditors resigning is elevated (Johnson et al. 2013; Judd et al. 2017). Indeed, Epstein and Ramamoorti (2016) argue that client executives' personality traits (such as narcissism) should be included in auditors' risk assessment models. Interestingly, auditors themselves may also possess narcissistic characteristics, potentially affecting their judgment and decision making (Akers et al. 2014). In this paper, we take an approach that differs from prior narcissism research by using multiple research methods to triangulate how auditors' narcissism influences their interactions with clients.

A narcissistic personality entails a heightened self-image, including a sense of dominance, superiority, and grandiosity (Raskin and Terry 1988). A narcissistic personality also encompasses individuals' sense of entitlement and lack of regard for others (Watson et al. 1984; Raskin and Terry 1988). Those who feel entitled believe that they deserve more than others and are willing

to exploit others for selfish reasons. These characteristics are associated with individuals' competitiveness (i.e., their desire to win in interpersonal settings) and hypercompetitiveness (i.e., their need to win at all costs in order to feel superior) in negotiations (Watson et al. 1998; Luchner et al. 2011). In addition, narcissists lack cognitive and emotional empathy, making it hard for them to understand others' viewpoints and feelings (Watson et al. 1984; Hepper et al. 2014). In the face of interpersonal conflict, narcissists react with cynical hostility, antagonism, and combativeness, with a focus on their personal gain and little concern for how their actions affect others (Campbell et al. 2005; Grijalva and Harms 2014).

Moreover, narcissism is linked to individuals' assertiveness, aggressiveness, antagonism, and intransigence (Küfner et al. 2013; Furnham and Crump 2014). In negotiations, these characteristics can manifest themselves in the use of contending tactics, including asserting positional commitments, arguing forcefully and persuasively, making threats, and giving ultimatums (Carnevale and Pruitt 1992). Previous research suggests that auditors use contending tactics when clients are inflexible on a disputed accounting position (Gibbins et al. 2010). In such cases, auditors put forth arguments to substantiate their positions and to refute clients' positions. Auditors can also threaten to modify their audit opinions in order to coerce concessions from clients (Bame-Aldred and Kida 2007).

To sum up, auditor narcissism is associated with an inherent drive to prevail in negotiations. The drive to win is underscored by a focus on self and insensitivity to others. Furthermore, the drive to win triggers competitive behaviors, including steadfast and uncompromising negotiating tactics. For our purpose, these characteristics can influence auditor-client negotiations in two ways. On the one hand, auditor narcissism makes it more difficult to reach an agreement in negotiations, thereby slowing the process and, at the extreme, leading to an impasse. Ultimately, such behavior causes audit delay, which is increasingly common in China (Habib 2015). Empirical evidence suggests that Chinese firms experience significantly longer audit delays than U.S. firms do (McGee and Yuan 2008). Thus, it is important to understand the factors that contribute to audit delay in the Chinese market (Chan et al. 2016). Prior auditor-client negotiation research, while not specifically focusing on narcissism, finds that auditors who negotiate in an empathetic or concessionary manner are more likely to get clients to book income-decreasing adjustments (Trotman et al. 2005; Sanchez et al. 2007). These findings imply that auditor narcissism might cause harm to negotiations. Consistent with this research, we suggest that auditor narcissism has a negative effect on the negotiation process, affecting the timely issuance of financial reports.

On the other hand, we depart from prior literature and contend that auditor narcissism can have a positive effect on negotiation outcome. Narcissistic characteristics drive auditors to stand their ground in negotiations and such hardline bargaining enables narcissists to obtain their desired outcome (Hüffmeier et al. 2014). In particular, narcissists' use of contending tactics, such as being intransigent and unyielding, provides a means to achieve their goals (Barry and Friedman 1998; Ma and Jaeger 2005). Notably, Trotman et al. (2009) provide evidence that audit partners consider tough and conservative stances in prenegotiation planning. We argue that narcissistic auditors are less inclined to move away from such hardline positions and, in turn, are more likely to get their way in negotiations, demanding that clients opt for less aggressive reporting choices. Ultimately, auditor narcissism can achieve better audit quality.

Based on the preceding discussion, we propose the following two directional hypotheses:

HYPOTHESIS 1. *Auditor narcissism is positively associated with the length of the negotiation process.*

HYPOTHESIS 2. *Auditor narcissism is positively associated with negotiation outcomes that reflect less aggressive reported amounts.*

While we focus on the effects of auditor narcissism on the negotiation process and outcome, our arguments could just as easily be applied to client narcissism because the way in which narcissistic characteristics influence behavior is not specific to the role of the negotiator. That is, ceteris paribus, narcissistic clients are more likely than non-narcissists to have protracted negotiations and obtain an outcome in their favor. In our hypotheses tests, we control for client narcissism and report its effect on negotiations.

3. Study one

First, we conduct archival analyses to test our hypotheses in naturally occurring settings. We collect data related to issues that correspond to our hypotheses. Hypothesis 1 suggests that auditor narcissism is associated with protracted negotiations. We use audit delay, defined as the time from fiscal year-end to the audit report date (Ashton et al. 1987; Ashton et al. 1989), as a proxy for the time associated with auditor-client negotiations. Salterio (2012) posits that auditor-client negotiations likely play a role in audit delay. For example, disagreements over the application of accounting standards, particularly late in the process, hamper the completion of an engagement. Hypothesis 2 suggests that auditor narcissism results in less aggressive reported amounts. We use absolute and signed discretionary accruals as a proxy for negotiated outcome. Prior findings indicate that higher discretionary accruals increase audit risk in the Chinese market (Chen and Lin 2011).

Auditor narcissism

We collect archival data on Chinese public companies, whose audit reports are signed by the auditors. Signature size is found to be positively associated with various facets of personality linked to narcissism, including awareness of status, self-esteem, and dominance (Zweigenhaft 1970, 1977; Jorgenson 1977). In particular, prior accounting research documents a positive relation between signature size and narcissism; that is, narcissists have larger signatures than others (Ham et al. 2017; Ham et al. 2018). Hence, we use the size of the auditors' signature as a proxy for their narcissistic tendencies.

The auditor's report in China is signed by an engagement auditor, who directs the audit in the field, and a review auditor, who oversees the job with ultimate authority and responsibility (Chinese Ministry of Finance 2001; Chen et al. 2016). The review auditor is usually more senior and experienced than the engagement auditor (Lennox et al. 2014; He et al. 2018). The signature of the review auditor is placed above that of the engagement auditor, thus allowing us to identify the two roles. We measure the size of each signature following prior research (Zweigenhaft 1977; Ham et al. 2017, 2018). Specifically, we construct a rectangle around each signature, with each side touching the most extreme point of the signature. Then, we scale the area of the rectangle by the number of characters in the signature. This approach yields the area-per-character, which helps to control for differences in name lengths.[3]

Sample

Our sample includes 429 Chinese A-share firm-year observations from 2007 to 2013, representing 281 firms in 53 industries.[4] The shares are listed on the Shanghai and Shenzhen Stock Exchanges, the two major exchanges in China. We begin our sample period in 2007 because in 2006 the

3. To validate signature size as a proxy for narcissism, we recruit 52 Chinese undergraduate students and administer the 40-item narcissism personality inventory (NPI), a commonly used measure of narcissism (Raskin and Terry 1988). We also collect students' signatures. The signature size is positively correlated with students' NPI score ($\rho = 0.27$, $p = 0.053$) and the correlation is similar to that reported in Ham et al. (2018), thus offering evidence of a link between signature size and narcissism.

4. We begin with an initial sample of 535 firm-year observations from nonfinancial industries with available signatures from both auditors as well as the CFO (taken from the annual report). We include the CFO's signature to control for client narcissism. We exclude 71 observations with illegible signatures and 35 observations with financial information (needed for control variables) missing from the China Stock Market & Accounting Research database. In addition, companies issuing only B-shares are excluded from our sample. The B-share market differs from the A-share market in terms of pricing, liquidity, and accounting and auditing requirements (Firth et al. 2012).

Chinese Ministry of Finance issued new accounting standards for business enterprises, effective January 1, 2007.

Audit delay

First, we estimate the following OLS regression model to examine the effect of auditor narcissism on audit delay.

$$\begin{aligned} LnLag_{it} = {} & \alpha_0 + \alpha_1 SIZEAUD1_j + \alpha_2 SIZEAUD2_j + \alpha_3 SIZECFO_j + \alpha_4 BIG_{it} + \alpha_5 SIZE_{it} \\ & + \alpha_6 GROWTHR_{it} + \alpha_7 LEV_{it} + \alpha_8 QUICK_{it} + \alpha_9 INVREC_{it} + \alpha_{10} LOSS_{it} + \alpha_{11} FOREIGN_{it} \\ & + \alpha_{12} FIRMAGE_{it} + \alpha_{13} BOARDIND_{it} + \alpha_{14} BOARDMEET_{it} + \alpha_{15} TOPSH_{it} \\ & + \alpha_{16-21} Year\ indicators + Industry\ indicators + Error. \end{aligned} \quad (1)$$

The dependent variable, *LnLag*, is the natural log of the number of days between a company's fiscal year-end and the audit report date. The natural log transformation is typically applied when the variable is positively skewed, as with audit delay. We point out that all public companies in China have a December 31st fiscal year-end and are required to disclose an annual report no later than April 30th. The primary independent variables are *SIZEAUD1* and *SIZEAUD2*, which proxy for auditor narcissism based on the signature size of the review auditor and of the engagement auditor, respectively. We include *SIZECFO* to proxy for client narcissism based on the CFO's signature size. The CFO usually takes part in auditor-client negotiations and, thus, can influence the duration of the process (Gibbins et al. 2007).

We include a number of control variables in our analysis based on prior research (Ashton et al. 1989; Ettredge et al. 2006; Whitworth and Lambert 2014). These variables are defined in Table 1 and summarized below. For the auditor, we include an indicator variable for Big 4 auditor (*BIG*). For client characteristics, we include the natural log of total assets (*SIZE*), growth in revenues (*GROWTHR*), the leverage ratio (*LEV*), the quick ratio (*QUICK*), inventory and receivables divided by total assets (*INVREC*), negative earnings (*LOSS*), foreign operations (*FOREIGN*), the natural log of firm age (*FIRMAGE*), the percentage of independent board directors (*BOARDIND*), the natural log of the number of board meetings (*BOARDMEET*), and the percentage of shares held by the top 10 shareholders (*TOPSH*).[5] In addition, we control for year (*Year indicators*) and industry (*Industry indicators*) fixed effects, and we adjust standard errors for clustering at the firm level. All continuous variables are winsorized at the top and bottom 1 percent to avoid the impact of outliers.

Table 2 reports descriptive statistics for audit delay (*LnLag*), auditor and client narcissism (*SIZEAUD1*, *SIZEAUD2*, and *SIZECFO*), and other control variables. We determine that the audit delay is 91.4 days on average. Inspection of Table 2 indicates that *SIZEAUD1* is larger than *SIZEAUD2*, suggesting that the review auditor's narcissism exceeds that of the engagement auditor. Moreover, *SIZEAUD1* and *SIZEAUD2* are larger than *SIZECFO*. This difference, however, is unlikely related to narcissism because, in general, more space is allotted for signatures in the auditor's report than in the annual report.

The left-hand side of Table 3 presents the results of our model to examine audit delay. The coefficient of *SIZEAUD1* is significantly positive ($p < 0.05$), and *SIZEAUD2* is not significant ($p > 0.10$). The findings suggest that audit delay is positively associated with the review auditor's narcissism but not with that of the engagement auditor. This result is not surprising because the review auditor is more senior than the engagement auditor and becomes more

5. Ettredge et al. (2006) document that companies with material internal control weaknesses have longer audit delays. We do not include material internal control weakness in our analyses because, in China, audits of internal control were not mandated until 2012 for state-owned entities and 2013 for non-state-owned entities (Lei et al. 2013).

TABLE 1
Variables in archival analyses

Variable	Definition
LnLag	The natural log of the number of days between fiscal year-end and the audit report date
|DA|, PosDA, NegDA	Absolute value, positive value, and negative values of discretionary accruals estimated based on the modified Jones model with firm profitability included (Kothari et al. 2005) for each year-industry group, conditional on having at least five observations
STDDA	The standard deviation of firms' residuals (discretionary accruals) over year $t - 5$ to year $t - 1$. Firms' residuals are estimated based on the specification of Francis et al. (2005) for each year-industry group with no less than five observations
SIZEAUD1	The signature size of the reviewing auditor
SIZEAUD2	The signature size of the engagement auditor
SIZECFO	The signature size of the CFO
BIG	One if a firm is audited by a Big 4 audit firm, zero otherwise
SIZE	The natural log of the firm's total assets
GROWTHR	Revenues in year t minus revenues in year $t - 1$ divided by revenues in year $t - 1$
LEV	Total debt divided by total assets
QUICK	Current assets minus inventory divided by current liabilities
INVREC	Inventory plus accounts receivable divided by total assets
LOSS	One if a firm reports negative net earnings and zero otherwise
FOREIGN	One if a firm is involved in foreign operation and zero otherwise
FIRMAGE	The natural log of the firm's age
BOARDIND	Percentage of independent directors at the end of year t
BOARDMEET	The natural log of the number of board meetings in year t
TOPSH	Percentage of shares held by the top 10 shareholders at the end of year t

Notes: The first variable, *LNLAG*, is the dependent measure used to examine audit delay (Hypothesis 1). The second variable, *DA*, is used to compute dependent measures to examine clients' discretionary accruals. For *DA*, we examine the absolute value of discretionary accruals (|*DA*|) as well as positive and negative discretionary accruals (*PosDA* and *NegDA*). The remainder are independent variables in the supplemental analyses.

involved at a later stage of the audit. Our findings for the review auditor are consistent with Hypothesis 1.[6]

The OLS results also indicate that the coefficient of *SIZECFO* is significantly positive ($p < 0.01$), suggesting that the CFO's narcissism contributes to audit delay, whereas the interaction terms are not significant. In addition, audit delay is negatively associated with having a Big 4 auditor ($p < 0.01$) and the holding percentage of large shareholders ($p < 0.05$), and positively associated with clients' size ($p < 0.01$) and growth in revenues ($p < 0.05$).

Discretionary accruals

Next, we estimate the following OLS regression model to examine the effect of auditors' narcissism on the outcome of auditor-client negotiations.

6. We reperform the OLS regressions including indicator variables for whether the client's audit opinion was modified and whether an auditor change occurred. None of the added variables are statistically significant, and the results presented in Table 3 are unaffected.

TABLE 2
Descriptive statistics: Archival data

Variable	Observations	Mean	SD	25th	50th	75th
LnLag	429	4.483	0.257	4.382	4.466	4.682
|DA|	429	0.055	0.049	0.017	0.041	0.074
PosDA	189	0.055	0.049	0.020	0.038	0.079
NegDA	240	−0.055	0.049	−0.073	−0.043	−0.017
SIZEAUD1	429	0.279	0.168	0.0178	0.232	0.319
SIZEAUD2	429	0.234	0.115	0.152	0.207	0.289
SIZECFO	429	0.085	0.050	0.051	0.073	0.108
SIZE	429	22.334	1.260	21.499	22.210	23.162
GROWTHR	429	0.148	0.499	−0.012	0.082	0.206
LEV	429	0.550	0.190	0.434	0.563	0.684
QUICK	429	0.985	0.846	0.492	0.756	1.207
INVREC	429	0.284	0.207	0.113	0.241	0.426
FIRMAGE	429	2.624	0.299	2.398	2.639	2.890
BOARDIND	429	0.365	0.050	0.333	0.333	0.385
BOARDMEET	429	2.180	0.358	1.946	2.197	2.398
TOPSH	429	0.524	0.163	0.398	0.522	0.650
Categorical variables						
BIG	429	0.061	0.239	0.000	0.000	0.000
LOSS	429	0.089	0.284	0.000	0.000	0.000
FOREIGN	429	0.289	0.454	0.000	0.000	1.000

Notes: This table provides descriptive statistics for the variables used in the archival analysis. Variable definitions are provided in Table 1.

$$DA_{it} = \alpha_0 + \alpha_1 SIZEAUD1_j + \alpha_2 SIZEAUD2_j + \alpha_3 SIZECFO_j + \alpha_4 BIG_{it} + \alpha_5 SIZE_{it} + \alpha_6 GROWTHR_{it} + \alpha_7 LEV_{it} + \alpha_8 QUICK_{it} + \alpha_9 INVREC_{it} + \alpha_{10} LOSS_{it} + \alpha_{11} FOREIGN_{it} + \alpha_{12} FIRMAGE_{it} + \alpha_{13} BOARDIND_{it} + \alpha_{14} BOARDMEET_{it} + \alpha_{15} TOPSH_{it} + \alpha_{16-21} Year\ indicators + Industry\ indicators + Error. \quad (2)$$

The left-hand side variable, *DA*, is the discretionary accruals estimated using the modified Jones model with firm profitability included for each year-industry group, conditional on having at least five firms in the group (Kothari et al. 2005). We run the model three times, using three different dependent measures: absolute discretionary accruals (*|DA|*), positive discretionary accruals (*PosDA*), and negative discretionary accruals (*NegDA*). The primary independent variables, again, proxy for auditor narcissism (*SIZEAUD1* and *SIZEAUD2*). As before, we include *SIZECFO* to control for client narcissism and other control variables following prior literature. All variables are defined previously in the model for audit delay.

The right-hand side of Table 3 presents the results of three separate OLS regression models. The results using *|DA|* as the dependent measure show that *SIZEAUD1* is significantly negative ($p < 0.01$), whereas *SIZEAUD2* is not significant ($p > 0.10$). The absolute value of clients' discretionary accruals is negatively associated with the review auditor's narcissism but not with the engagement auditor's narcissism. Again, the review auditor's narcissism plays a significant role. We contend that smaller absolute discretionary accruals improve financial reporting quality and, in turn, decrease audit risk. The findings for the review auditor are consistent with Hypothesis 2.

TABLE 3
Results of archival analyses

	Audit delay	Clients' discretionary accruals		
Independent variables	*LnLag* (1)	$\|DA\|$ (2)	*PosDA* (3)	*NegDA* (4)
SIZEAUD1	0.137**	−0.044***	−0.074**	0.034*
	(2.03)	(−3.00)	(−1.71)	(1.49)
SIZEAUD2	0.048	0.005	0.037	0.001
	(0.52)	(0.20)	(0.99)	(0.02)
SIZECFO	0.762***	0.138*	0.153	−0.171
	(3.15)	(1.83)	(1.32)	(−1.51)
SIZEAUD1×SIZECFO	−1.807	0.343	0.273	−0.31
	(−0.88)	(0.78)	(0.24)	(−0.42)
SIZEAUD2×SIZECFO	−2.574	−0.066	2.628*	1.577
	(−0.83)	(−0.09)	(1.79)	(1.54)
BIG	−0.115**	−0.022***	−0.031*	0.008
	(−2.21)	(−2.74)	(−1.85)	(0.57)
SIZE	0.044***	−0.005**	−0.007	0.010**
	(3.68)	(−2.10)	(−1.24)	(2.27)
GROWTH	0.047**	0.007	0.011	0.004
	(2.30)	(1.13)	(1.33)	(0.69)
LEV	−0.035	0.005	−0.035	−0.033
	(−0.28)	(0.24)	(−0.94)	(−1.00)
QUICK	0.007	0.004	0.009	0.002
	(0.29)	(0.68)	(0.92)	(0.28)
INVREC	0.009	0.007	0.005	−0.005
	(0.10)	(0.38)	(0.19)	(−0.18)
LOSS	0.055	0.014	0.011	−0.001
	(1.29)	(1.60)	(0.60)	(−0.10)
FOREIGN	0.043	0.001	0.007	−0.002
	(1.50)	(0.24)	(0.55)	(−0.28)
FIRMAGE	−0.006	0.020*	0.022	−0.024
	(−0.13)	(1.83)	(1.08)	(−1.60)
BOARDIND	−0.304	0.046	0.088	−0.150**
	(−1.19)	(0.96)	(1.00)	(−2.36)
BOARDMEET	−0.059	0.002	−0.001	−0.010
	(−1.58)	(0.26)	(−0.01)	(−0.98)
TOPSH	−0.209**	0.054***	0.066**	−0.043
	(−2.14)	(2.74)	(2.02)	(−1.47)
Constant	3.736***	0.084	0.015	−0.153*
	(13.72)	(1.33)	(0.12)	(−1.69)
Year indicators	Yes	Yes	Yes	Yes
Industry indicators	Yes	Yes	Yes	Yes
Adjusted R^2 (%)	23.20	10.29	17.22	8.39
Observations	429	429	189	240

Notes: Column (1) reports the OLS regression results using audit delay (*LnLag*) as the dependent variables. Columns (2)–(4) report the regression results using discretionary accruals, that is, $|DA|$, *PosDA*, and *NegDA* as dependent variables. Though not reported, year and industry fixed effects are included. In addition, standard errors are adjusted for clustering at the firm level. The table entries represent the estimated coefficient (*t*-statistic). *, **, and *** indicate statistical significance at the 10, 5, and 1 percent levels, respectively. The *p*-values are two-tailed, excepting *SIZEAUD1* and *SIZEAUD2*. The *p*-values are one-tailed for the auditor narcissism variables as we have directional predictions. Variable definitions are provided in Table 1.

We also document that the coefficient of *SIZECFO* is significantly positive ($p < 0.10$), whereas the interaction terms are not significant. The positive coefficient of *SIZECFO* provides evidence that the CFO's narcissism leads to larger absolute discretionary accruals. Furthermore, absolute discretionary accruals are negatively associated with having a Big 4 auditor ($p < 0.01$) and clients' size ($p < 0.05$), and are positively associated with the holding percentage of large shareholders ($p < 0.01$) and clients' age ($p < 0.10$).

The results using *PosDA* as the dependent measure are similar to those discussed above, though significance levels are reduced. We find that *SIZEAUD1* is significantly negative ($p < 0.05$); that is, the review auditor's narcissism is negatively associated with clients' positive discretionary accruals. So the review auditor's narcissism is linked to less aggressive financial reporting, consistent with Hypothesis 2. The results using *NegDA* as the dependent measure indicate that *SIZEAUD1* is significantly positive ($p < 0.10$). In this case, the review auditor's narcissism is positively associated with clients' negative discretionary accruals, indicating less income-decreasing behavior.[7]

Finally, we repeat the analyses using alternative measures of discretionary accruals. We recompute *DA* to allow for asymmetry in the timing of gain and loss recognition (Ball and Shivakumar 2006; Carver et al. 2011). We also recompute *DA* following Francis et al. (2005). The results (not tabulated) are consistent with those presented in Table 3. In every case, *SIZEAUD1* is significant at $p < 0.05$, suggesting that the review auditor's narcissism is associated with less aggressive financial reporting.

Auditor incentives

Auditors' incentives are not always aligned with their watchdog role. For example, auditors who have economic interests in keeping a client (e.g., providing nonaudit services) may be overly tolerant of the client's aggressive reporting behavior (Hackenbrack and Nelson 1996; Moore et al. 2006). To examine whether auditor incentives moderate the effect of narcissism on audit quality, we repeat our hypotheses tests after including measures of client importance (*IMPORT1* and *IMPORT2*, determined as the audit fee from a client scaled by the total audit fees generated by the review auditor and the engagement auditor, respectively) and the interaction between client importance and auditor signature size in the model. As reported in Table 4, results show that the main findings of our hypothesis tests remain unchanged. The interaction terms are nonsignificant except for the interaction between *IMPORT2* and *SIZEAUD2* in the model with |*DA*| as the dependent variable. Our key independent variable, *SIZEAUD1*, remains significant except in the model with *NegDA* as the dependent variable. Overall, we find no evidence that the effect of auditor narcissism on audit quality is moderated by client importance. Thus, to the extent that non-narcissistic auditors might not be able to resist important clients, a potential solution is to assign narcissistic auditors to these clients. Future research can explore whether auditor narcissism mitigates the negative effect of client importance on audit quality.

7. Income-decreasing accruals could be interpreted as either conservative accounting choices or opportunistic reporting behavior ("earnings smoothing" or "big bath") (Ashbaugh et al. 2003). To shed further light on the result of auditor narcissism reducing income-decreasing accruals, we use Gul, Fung et al.'s (2009) method to divide our sample into two subsamples: the top and bottom 20 percent of premanaged earnings (the extreme subsample) and the middle 60 percent (the nonextreme subsample). Firms in the extreme subsample have greater incentives to smooth earnings (top 20 percent) or take a big bath (bottom 20 percent) than firms in the nonextreme subsample. We find that, in the extreme subsample (where firms are more likely to use income-decreasing accruals to manipulate earnings), auditor narcissism significantly lowers the level of income-decreasing accruals ($p = 0.058$). This finding is consistent with our theory that auditor narcissism curbs opportunistic reporting behavior. By comparison, in the nonextreme subsample, the association between auditor narcissism and income-decreasing accruals is not significant.

4. Study two

Participants and research design

Our second study is a laboratory experiment with a stylized negotiation setting. An experiment enhances internal validity by controlling for confounding factors inherent in the field, thereby providing a clean and parsimonious test of our hypotheses. In the experiment, we manipulate the composition of auditor-client dyads based on participants' narcissistic predispositions. About three months before conducting the experiment, we administered the 40-item NPI to 662 undergraduate business students at a major university in China (Raskin and Terry 1988).[8] The NPI is a standard measure of narcissism and has been validated using Chinese undergraduate students (Kwan et al. 2009). The range of possible NPI scores is from 0 to 40, with higher scores representing higher degrees of narcissism. Foster et al. (2003) report an average NPI score of 15.3 in a sample of adults who reside in the United States. Akers et al. (2014) find that the average NPI score is 14.7 for practicing accountants in the United States and 15.3 for those in auditing. Meisel et al. (2016) report an average NPI score of 15.46 for undergraduate students in the United States and 13.99 for undergraduate students in China. In our study, the average NPI of the Chinese undergraduates is 13.7, similar to that reported in Meisel et al. (2016).[9]

We partition our sample into terciles based on respondents' NPI scores. We recruit 196 students from the top and bottom third for our experiment, representing High (denoted H) and Low (denoted L) narcissists, respectively. In our experiment, the H participants have NPI scores ranging from 17 to 34, with an average of 22.5 (n = 99), and the L participants have NPI scores from 0 to 9, with an average of 6.0 (n = 97). We assign one half of the participants to the role of auditor and the other half client.[10] Then we create auditor-client dyads to negotiate over reported amounts. We configure the composition of the dyads such that both participants are H, both are L, or one is H and one L. Thus, we have four experimental groups denoted HH, LL, HL, and LH, where the first (second) letter represents the auditor's (client's) narcissism. We systematically configure the dyads in order to hold constant the narcissism level of each role over the course of an experimental session and to control for client narcissism in the auditor-client interaction.

Auditor-client dyads negotiate in 18 independent periods, with participants re-paired each period. Each period can last up to one minute. We use this time limit to mimic the deadline pressure inherent in the audit process (DeZoort and Lord 1997). Research finds that the deadline pressure has significant impacts on the behavior of auditors and clients (Bennett et al. 2015; Lambert et al. 2017). In our experiment, if the negotiation ends in an impasse, the auditor and client earn nothing for the period. This design choice creates an incentive for reaching an agreement, thus providing a stringent test of Hypothesis 1.[11]

Experimental procedures

The experiment is programmed using the Z-tree software (Fischbacher 2007) and is administered in a computer laboratory. After the experiment begins, instructions are distributed and read aloud. Participants answer a quiz to ensure that they understand the instructions and are not allowed to proceed until all questions are answered correctly. As indicated above, the experiment consists of

8. In our study, experimental stimuli are administered in Chinese. We use the back-translation method to ensure that content remains the same (Brislin 1970; Hui and Triandis 1985).
9. Meisel et al. (2016) find that the NPI scores of Chinese students are lower than those of U.S. students. As discussed earlier, we focus on the role of narcissism in the Chinese setting. Caution should be taken in considering the implications of our findings for Western practices. We provide more discussion in the final section of the paper.
10. In the experimental instructions, we use the terms "verifier" and "reporter" to represent the auditor and client, respectively. We use the terms "auditor" and "client" in the text for expositional convenience.
11. We deem the allotted time sufficient because the setting is stark and straightforward. Furthermore, the experimental data suggest that the time is adequate because, on average, we observed more than 13 offers per period before an agreement was reached, and agreements were achieved 76 percent of the time.

TABLE 4
Results of archival analyses after considering auditor incentives

	Audit delay	Clients' discretionary accruals		
Independent variables	*LnLag* (1)	*|DA|* (2)	*PosDA* (3)	*NegDA* (4)
SIZEAUD1	0.135**	−0.041***	−0.072**	0.026
	(2.00)	(−2.73)	(−1.66)	(1.14)
SIZEAUD2	0.057	0.002	0.044	0.012
	(0.59)	(0.08)	(1.18)	(0.33)
SIZECFO	0.754***	0.129*	0.164	−0.156
	(3.13)	(1.71)	(1.41)	(−1.35)
IMPORT1	0.029	0.002	−0.001	−0.009
	(0.61)	(0.17)	(−0.09)	(−0.76)
IMPORT2	0.068	−0.005	−0.006	0.005
	(1.30)	(−0.49)	(−0.36)	(0.32)
SIZEAUD1×SIZECFO	−1.749	0.314	0.273	−0.223
	(−0.90)	(0.69)	(0.24)	(−0.30)
SIZEAUD2×SIZECFO	−2.302	−0.194	2.722*	1.561
	(−0.72)	(−0.28)	(1.89)	(1.46)
SIZEAUD1×IMPORT1	0.083	−0.003	−0.008	−0.053
	(0.34)	(−0.05)	(−0.09)	(−0.69)
SIZEAUD2×IMPORT2	−0.200	−0.170**	−0.134	0.152
	(−0.56)	(−2.05)	(−1.07)	(1.19)
BIG	−0.123**	−0.021***	−0.033*	0.007
	(−2.47)	(−2.60)	(−1.93)	(0.46)
SIZE	0.039***	−0.005*	−0.006	0.010**
	(3.17)	(−1.95)	(−1.15)	(2.10)
GROWTH	0.044**	0.007	0.010	0.002
	(2.13)	(1.17)	(1.28)	(0.41)
LEV	−0.029	0.005	−0.037	−0.038
	(−0.23)	(0.21)	(−0.98)	(−1.08)
QUICK	0.007	0.004	0.008	0.001
	(0.31)	(0.69)	(0.84)	(0.19)
INVREC	0.018	0.007	0.004	−0.005
	(0.20)	(0.39)	(0.16)	(−0.18)
LOSS	0.050	0.016*	0.013	−0.002
	(1.15)	(1.72)	(0.67)	(−0.16)
FOREIGN	0.043	0.002	0.007	−0.004
	(1.45)	(0.45)	(0.54)	(−0.47)
FIRMAGE	−0.004	0.021*	0.023	−0.023
	(−0.07)	(1.86)	(1.06)	(−1.53)
BOARDIND	−0.353	0.052	0.101	−0.147**
	(−1.42)	(1.10)	(1.15)	(−2.05)
BOARDMEET	−0.064*	0.003	0.002	−0.006
	(−1.67)	(0.33)	(0.13)	(−0.58)
TOPSH	−0.203**	0.055***	0.067**	−0.040
	(−2.07)	(2.78)	(2.07)	(−1.31)
Constant	3.794***	0.076	0.004	−0.154
	(13.05)	(1.20)	(0.03)	(−1.63)
Year indicators	Yes	Yes	Yes	Yes
Industry indicators	Yes	Yes	Yes	Yes

(The table is continued on the next page.)

TABLE 4 (continued)

	Audit delay	Clients' discretionary accruals		
Independent variables	*LnLag* (1)	|*DA*| (2)	*PosDA* (3)	*NegDA* (4)
Adjusted R^2 (%)	23.22	10.45	15.19	7.29
Observations	429	429	189	240

Notes: Column (1) reports the OLS regression results using audit delay (*LnLag*) as the dependent variables. Columns (2)–(4) report the regression results using discretionary accruals, that is, |*DA*|, *PosDA*, and *NegDA* as dependent variables. Though not reported, year and industry fixed effects are included. In addition, standard errors are adjusted for clustering at the firm level. The table entries represent the estimated coefficient (*t*-statistic). *, **, and *** indicate statistical significance at the 10, 5, and 1 percent levels, respectively. The *p*-values are two-tailed, excepting *SIZEAUD1* and *SIZEAUD2*. The *p*-values are one-tailed for the auditor narcissism variables as we have directional predictions. Variable definitions are provided in Table 1.

18 independent, one-minute periods. To avoid potential end-game effects, participants are not informed beforehand of the number of periods.

Each period, auditor-client dyads negotiate anonymously on the computer. We pair participants anonymously in order to control for confounding effects including participants' appearance, gender, mannerisms, and prior acquaintance. At period end, auditor-client dyads are randomly reassigned. Participants do not receive feedback on realized asset values during the experiment. We suppress feedback in order to reinforce the fact that each period represents an independent, one-shot negotiation. Furthermore, feedback on asset value is lagged in naturally occurring settings. Our experimental context is purposefully stark to circumvent possible confounds associated with participants' beliefs about how they are supposed to behave in auditor-client settings (Bowlin et al. 2015).

At the beginning of each period, neither player knows the actual asset value. We make this choice to ensure that one player does not have an advantage over the other (discussed below). Players negotiate over an acceptable reported asset value, which influences their payoffs. The actual asset value is determined by drawing from a uniform distribution that ranges from 50 to 1,000 in increments of 50; so the asset takes one of 20 values, each having a 5 percent chance of realization. The actual asset value is randomly generated for each auditor-client dyad per period. The instructions include a chart that lists potential values, the probability of occurrence, and the probability that the amount exceeds the actual asset value (see Wang and Tuttle 2009; Wang 2010).

Negotiations take place as follows. The client begins by proposing a reported amount. The proposed amount is transmitted to the auditor, who either accepts or makes a counteroffer. If the auditor accepts, the period ends. If the auditor makes a counteroffer, the client either accepts or proposes another amount. The process continues back and forth until an amount is accepted or time expires. After finishing 18 periods, participants complete a postexperiment questionnaire.[12]

12. The postexperiment questionnaire includes items to elicit participants' risk preferences (Holt and Laury 2002) and ability to empathize with others (i.e., perspective-taking ability; Davis 1980). We find that participants' NPI scores are positively associated with risk preferences and negatively associated with perspective-taking ability. We perform separate analyses of the experimental data, controlling for participants' risk preferences and perspective-taking ability, and inferences are unaffected (results not tabulated).

Information and incentive structures

The negotiation setting is structured so that both players have symmetric information and equal bargaining power. In practice, the balance of power in auditor-client negotiations is contingent on situational factors (Gibbins et al. 2005; Salterio 2012). For example, auditors' relative power is fortified by a strong audit committee and authoritative accounting standards. Clients' relative power is strengthened by firsthand knowledge of the negotiation issue and their importance to the auditor. We aim to study the effect of auditor narcissism on auditor-client negotiations, precluding the potential influences of other contextual factors. Therefore, we hold information and bargaining power constant and equal between the two roles.

Players' payoffs are conflicting: the client prefers larger reported amounts and the auditor prefers amounts that do not exceed the actual asset value. If an agreement is reached, the client's payoff is the reported amount, whereas the auditor's payoff depends on the relation between the reported amount and the actual asset value. The auditor's payoff is 400 if the reported amount is equal to or less than the actual value. Otherwise, the auditor's payoff is 400 minus a penalty that is computed as one half of the difference between the reported amount and the actual value. That is, the auditor incurs a penalty for allowing an overly aggressive reported amount, and the penalty increases with the level of aggressiveness. The penalty encompasses litigation exposure and regulatory pressure, both of which are relevant and present in naturally occurring auditor-client settings (Habib et al. 2014). The potential for a penalty means that the auditor prefers smaller reported amounts, which is consistent with the audit ecology. Prior research provides evidence that clients' aggressive reporting choices increase audit risk (DeFond et al. 2016). Thus, concerns for audit risk "motivate auditors to prefer conservative accounting choices" (Hackenbrack and Nelson 1996; DeFond and Subramanyam 1998, 36).

If an impasse occurs, both players' payoffs are zero. We set the stalemate payoffs at zero, rather than a negative amount, for three main reasons. First, we do not want to set the cost of negotiation impasse so high that there would be no impasse. Impasses/negotiation failures occur in practice, so preventing them in the experiment would have been inconsistent with what is observed in the field.[13] Second, our predictions are not about the absolute numbers of impasses but rather whether there are differences in the length of the negotiation process across conditions.[14] Third, we want to maintain a balance between auditors' incentive for audit efficiency (i.e., reaching agreement) and their incentive for audit effectiveness (i.e., curbing aggressive reporting). Both audit efficiency and audit effectiveness are important for auditors' performance evaluation and promotion (McNair 1991), and the relative strengths of these two incentives depend on the specific audit setting and client characteristics. Because auditors' incentives are not the focus of this paper, we choose a neutral, baseline setting in which one incentive does not obviously dominate the other. Players' payoffs are summarized in Figure 1.

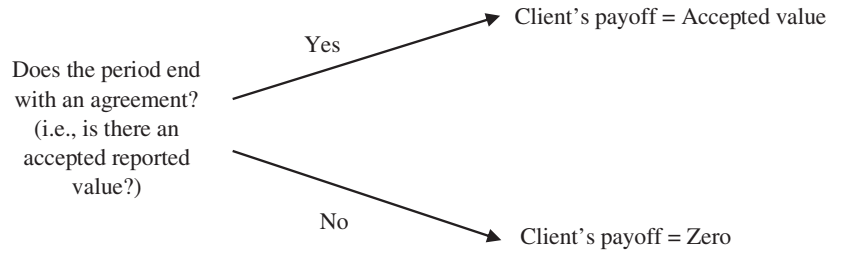
Participants' cash payouts are determined as follows. For each session, we rank client-participants and auditor-participants based on their experimental earnings and pay them a fixed amount (i.e., the participant ranked first in each role makes the most, and the participant ranked second makes the next most, etc.). This procedure creates similar incentives for participants in

13. For example, Gul, Sami et al. (2009) find that 18 percent of the Chinese firms in their sample received a qualified audit opinion, which is often a result of unresolved audit disagreements (Goodwin 2000; Salterio 2012). Chan et al. (2016) suggest that unsuccessful auditor-client negotiations are one of the determinants of audit delay in China.

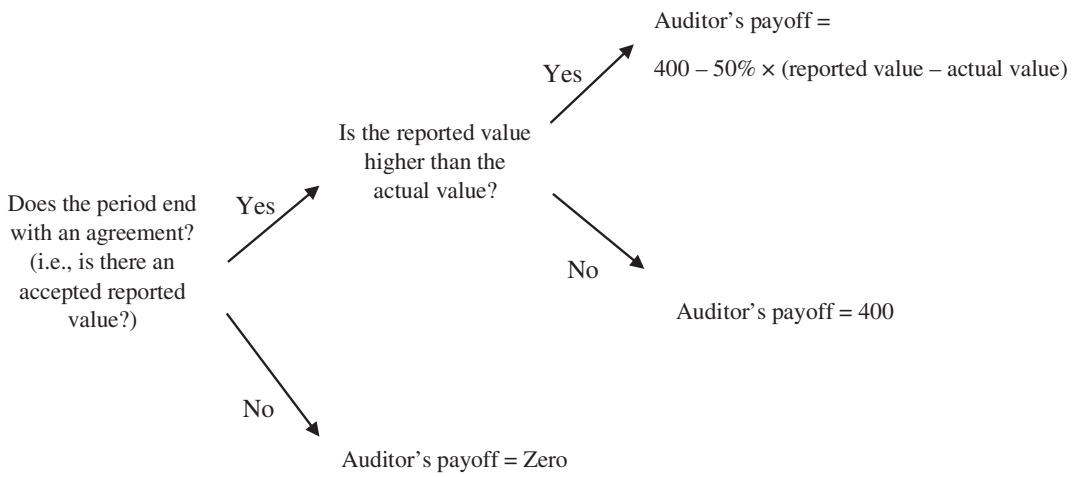
14. Specifically, our Hypothesis 1 predicts that auditor narcissism lengthens the negotiation process. As reported in the Results section, we test Hypothesis 1 using two other dependent variables (the number of offers before agreeing; the time taken per period) in addition to the number of impasses and find the same results. These two other variables are unlikely to be influenced by the costs of impasse, so the fact that we find the same results suggests that Hypothesis 1 would hold even when impasses are less frequent due to higher costs. These findings provide reassurance that our main results are not likely to be affected by the magnitude of the stalemate costs. However, without empirical data, we cannot rule out this possibility. We acknowledge that the preclusion of negative stalemate payoffs is a potential limitation of our study.

Figure 1 Players' payoffs per period

Panel A: Client payoff



Panel B: Auditor payoff



Notes: The figure depicts participants' payoffs in our experiment, contingent on negotiated outcomes.

different roles and eliminates participants' tendency to compare their own payoff with their counterpart's payoff (Wang and Tuttle 2009).[15]

Results

Table 5 presents descriptive statistics for the percentage of time that an agreement is reached (*AGREE*), the average number of offers before agreeing (*OFFERS*), and the average agreed

15. One might wonder whether the ranking procedure could interact with auditor narcissism to affect our results. However, such an effect would work against Hypothesis 1 because, if narcissistic auditors cared about the ranking, they would be less likely to reach an impasse (i.e., zero payoff). As reported later, we find that narcissistic auditors are indeed more likely to end the negotiation with an impasse. Furthermore, our ranking procedure has parallels in practice because auditors often face a tournament-like situation in which promotion opportunities are influenced by their relative performance, and client managers may have an incentive to report higher earnings than their peers do (Gong et al. 2011; Carter and Spence 2014).

amount (*REPORT*). We use data from all 18 dyads/periods to compute *AGREE* and data from dyads/periods with an agreement to compute *OFFERS* and *REPORT*. *AGREE* and *OFFERS* represent the duration of the negotiation process: the process is protracted to the extent that *AGREE* decreases and *OFFERS* increases. *REPORT* represents the negotiation outcome, conditioned on agreement: lower *REPORT* reflects less aggressive reported amounts.

Tests of Hypothesis 1

Hypothesis 1 suggests that H auditors are more likely to be involved in prolonged negotiations than L auditors are. To test Hypothesis 1, we perform analyses focusing on the duration of the negotiation process: *AGREE* and *OFFERS*. For *AGREE*, the dependent variable is coded as one if an agreement is reached and zero otherwise. The independent variables include auditor narcissism ($Auditor^{N}$), client narcissism ($Client^{N}$), an interaction term ($Auditor^{N} \times Client^{N}$), and the client's initial offer (*1st-Offer*). $Auditor^{N}$ and $Client^{N}$ are dummy variables, coded as one for H and zero for L. We control for *1st-Offer* because it establishes a starting point and potentially influences the negotiation process (Galinsky and Musweiler 2001). Because *AGREE* is a categorical variable, we perform a logistic regression.[16]

The logistic regression results are summarized in panel A of Table 6. Consistent with Hypothesis 1, the coefficient of $Auditor^{N}$ is significantly negative ($p < 0.001$),[17] indicating that, controlling for client narcissism, H auditors are less likely to reach an agreement than L auditors. We also find that the coefficient of $Client^{N}$ is significantly negative ($p = 0.007$), paralleling the effect of $Auditor^{N}$. The interaction term ($Auditor^{N} \times Client^{N}$) is not significant ($p > 0.40$). Hence, our results suggest that an agreement is less likely when at least one of the negotiators (auditor *or* client) is H. The cell means in Table 5 show that the frequency of agreement is highest when both negotiators are L, with the percentages decreasing when the auditor and/or client is H. Finally, the coefficient of *1st-Offer* is significantly negative ($p < 0.001$), indicating that the failure to reach an agreement is associated with higher initial offers.[18]

Next, we perform an OLS regression using *OFFERS* as the dependent variable. The independent variables are the same as those described above, although the observations are restricted to agreements. The results are summarized in panel A of Table 6. The coefficient of $Auditor^{N}$ is significantly positive ($p < 0.01$), indicating more offers with H auditors than with L auditors, controlling for client narcissism. We maintain that increasing the number of offers extends the negotiation process. We document a significant correlation between *OFFERS* and the time taken to reach an agreement ($\rho = 0.50$, $p < 0.001$). Our findings suggest that negotiations are more likely to be drawn out with H auditors than with L auditors, further supporting Hypothesis 1.[19]

The OLS findings also indicate that the coefficient of $Client^{N}$ is significantly positive ($p = 0.008$), again paralleling the effect of $Auditor^{N}$. Furthermore, *1st-Offer* and the interaction term are both statistically significant at $p < 0.025$. For *1st-Offer*, the coefficient is positive, indicating that higher initial offers prolong the negotiation process. To interpret the significant interaction term, we partition the data by client narcissism and examine the simple effects. As summarized in panel B of Table 6, in both analyses,

16. Recall that players are re-paired to form a different negotiating dyad each period. Unless otherwise specified, our main analyses in this subsection treat each negotiating dyad as an independent data point. We repeat the analyses including the period as an independent variable, and statistical inferences are similar. In addition, for analyses for which the data can be broken down to the individual player level, we repeat the test using each player as a data point, controlling for repeated measurement by including the player as a cluster variable. Inferences are unchanged.
17. The *p*-values for $Auditor^{N}$ are one-tailed because we have directional predictions, whereas the *p*-values for the other variables are two-tailed.
18. We also find that H clients make significantly higher ($p < 0.001$) initial offers than L clients make.
19. We also perform an analysis in which the dependent variable is the time taken per period, that is, the number of seconds to reach an agreement, where the value is 60 seconds if an agreement is not reached. The results mirror those reported in Table 6 (using *OFFERS* as the dependent measure).

TABLE 5
Descriptive statistics: Experimental data

Auditor narcissism	Client narcissism: Low		Client narcissism: High		Client narcissism: Overall	
Low	*AGREE* (n = 432)	0.86	*AGREE* (n = 486)	0.77	*AGREE* (n = 918)	0.81
	OFFERS (n = 370)	10.99	*OFFERS* (n = 374)	14.34	*OFFERS* (n = 744)	12.67
	REPORT (n = 370)	472.70	*REPORT* (n = 374)	529.95	*REPORT* (n = 744)	501.48
High	*AGREE* (n = 396)	0.74	*AGREE* (n = 450)	0.67	*AGREE* (n = 846)	0.70
	OFFERS (n = 294)	14.14	*OFFERS* (n = 301)	14.38	*OFFERS* (n = 595)	14.26
	REPORT (n = 294)	426.70	*REPORT* (n = 301)	464.45	*REPORT* (n = 595)	445.80
Overall	*AGREE* (n = 828)	0.80	*AGREE* (n = 936)	0.72		
	OFFERS (n = 664)	12.38	*OFFERS* (n = 675)	14.36		
	REPORT (n = 664)	452.33	*REPORT* (n = 675)	500.74		

Notes: Auditor- and client-participants are categorized as high (H) or low (L) based on their responses to the narcissistic personality inventory. We establish auditor-client dyads such that narcissism pairings are HH, HL, LH, and LL, where the first letter represents the auditor and the second represents the client. The cell entries include averages for various measures, with the number of observations shown parenthetically. The measures are defined as follows: *AGREE* = 1 if an agreement is reached and 0 otherwise; *OFFERS* = the number of offers preceding an agreement; *REPORT* = the reported amount agreed upon.

the coefficient of $Auditor^{N}$ is significantly positive ($p < 0.05$), though the effect is more pronounced with L clients than with H clients. Scrutinizing the descriptive data in Table 5, we note that the difference in *OFFERS* between H and L auditors is greater in the L client condition (10.99 vs. 14.14) than in the H client condition (14.34 vs. 14.38).

We perform additional analysis (untabulated) to examine whether narcissists are more aggressive in responding to others' offers. Compared to L auditors, H auditors make counteroffers faster ($p = 0.002$) and their counteroffers differ more ($p = 0.076$, one-tailed) from the client's offer on the table. Similarly, compared to L clients, H clients respond faster ($p < 0.001$) to the auditor's offer, with an amount that differs more ($p = 0.057$, one-tailed) from the auditor's offer. These results are consistent with our theory that narcissists are less empathetic and more disagreeable than non-narcissists.

Collectively, our findings support Hypothesis 1.[20] Auditor narcissism is associated with the likelihood of reaching an impasse in negotiations. In addition, auditor narcissism is associated

20. We repeat our analysis of Hypothesis 1 using the average per participant (across the 18 periods), and the results are similar to those presented in Table 6, with one exception. The simple effects results change slightly (refer to panel B of Table 6). Specifically, H auditors are associated with a higher number of offers when dealing with L clients ($p < 0.01$), but not H clients ($p > 0.10$).

TABLE 6
Experimental results

Panel A: Analyses of the negotiation process and outcome

	Dependent variable		
Independent variables	*AGREE*	*OFFERS*	*REPORT*
$Auditor^N$	−0.841***	3.975***	−28.837***
	(−4.60)	(4.80)	(−3.17)
$Client^N$	−0.479**	2.658***	42.978***
	(−2.71)	(3.06)	(4.57)
$Auditor^N \times Client^N$	0.183	−2.794**	−13.131
	(0.78)	(−2.26)	(−1.00)
1st-Offer	−0.002***	0.013***	0.268***
	(−5.15)	(6.51)	(11.62)
Constant	3.188***	1.534	277.189***
	(10.13)	(1.00)	(15.93)
Observations	1,764	1,339	1,339

Panel B: Simple effects (DV = *OFFERS*)

	Clients' narcissism	
Independent variables	Low	High
$Auditor^N$	3.634***	1.556**
	(4.41)	(1.70)
1st-Offer	0.008***	0.017***
	(3.06)	(5.86)
Constant	5.410***	0.842
	(2.88)	(0.38)
Observations	664	675

Notes: The cell entries include estimated coefficients (test statistics). For *AGREE*, we perform a logistic regression, so the values shown parenthetically are *z*-statistics. For the other dependent variables, we perform an OLS regression, so the values shown parenthetically are *t*-statistics. **, and *** indicate statistical significance at the 5 and 1 percent levels, respectively. The *p*-values are one-tailed for $Auditor^N$ because we have directional predictions and two-tailed for the other variables. The independent variables are defined as follows. $Auditor^N$ and $Client^N$ are auditors' and clients' narcissism, respectively, coded as one for High and zero for Low; and *1st-Offer* is the client's first offer. For Hypothesis 1, we test whether auditor narcissism affects the negotiation process using two dependent variables, *AGREE* and *OFFERS*. *AGREE* is defined as one if an agreement is reached and zero otherwise; and *OFFERS* represents the number of offers preceding an agreement. In panel B, we partition the data based on clients' narcissism (Low and High) and present the simple effects of the significant interaction term revealed in panel A (for *OFFERS*). For Hypothesis 2, we test whether auditor narcissism affects the negotiated outcome using *REPORT* as the dependent variable. *REPORT* is defined as the agreed-upon amount.

with the length of the negotiation process, and this relationship is more discernible when auditors negotiate with clients who are low, rather than high, on the narcissistic personality dimension.

Tests of Hypothesis 2

Hypothesis 2 suggests that H auditors are more likely to agree on smaller reported amounts than L auditors are. To test Hypothesis 2, we perform an OLS regression using *REPORT* as the

dependent measure. The independent variables are the same as those described earlier. As reported in panel A of Table 6 (rightmost column), the coefficient of $Auditor^{N}$ is significantly negative ($p < 0.01$), indicating that, controlling for client narcissism, the agreed amount is smaller (less aggressive) with H auditors than with L auditors. This result supports Hypothesis 2. We also find that the coefficient of $Client^{N}$ is significantly positive ($p < 0.01$), suggesting that the agreed amount is larger (more aggressive) with H clients than with L clients. The coefficient of *1st-Offer* is significantly positive ($p < 0.01$). In this case, higher initial offers are associated with higher agreed amounts, consistent with prior findings in the negotiation literature (Galinsky and Musweiler 2001).

An inspection of the cell means in Table 5 sheds further light on the effects of auditor and client narcissism on the negotiated outcome. When the dyad includes a high and low narcissist (HL and LH dyads), the agreed amount is more in line with the high narcissist's preferences; that is, the agreed amount is lower with H auditors and higher with H clients. When the dyad includes two high narcissists (HH dyad), the agreed amount falls between that of the HL and LH dyads. In this case, one player's narcissistic behavior appears to offset the other's; that is, the auditor's narcissism works to dampen the reported amount and the client's narcissism works to increase the amount. Lastly, when the dyad includes two low narcissists (LL dyad), the agreed amount is similar to that of the HH dyad. Both dyads (LL and HH) end up agreeing on a reported amount that seems to reflect a middle ground.

Overall, our findings are consistent with Hypothesis 2.[21] Narcissistic auditors are more likely to reach a lower reported amount (i.e., an amount that is more consistent with their preference for reducing audit risk) and narcissistic clients are more likely to reach a higher reported amount (i.e., an amount that is more consistent with their self-interest). These results suggest that it may be useful for the audit firm to have a narcissistic auditor when the client is narcissistic. Future research can systematically examine whether such a strategy helps improve audit quality.

5. Study three

To shed further light on the role of auditor narcissism in auditor-client negotiations, we interviewed five audit partners in the United States (referred to as A1–A5) and five audit partners in China (referred to as C1–C5). The partners interviewed in the United States and China have an average public accounting experience of 23 and 25 years, respectively. Following recent qualitative auditing research (Cohen et al. 2017; Westermann et al. 2019), we used a semi-structured interview approach. We conducted six interviews in person and four interviews by phone, with each interview taking approximately 30 minutes. With permission, interviews were recorded and were transcribed by research assistants. The interviews were structured around four broad questions tailored to addressing our research questions,[22] and we followed up on interviewees' responses with further questions or discussions, whenever necessary, to gain more insights into the relevant issues (Westermann et al. 2015; Cohen et al. 2017).

To analyze the interview data, we used the constructivist method, relying on interviewees' extensive discussions of the predetermined themes (i.e., first-order concepts) to extrapolate "second-order concepts, which are the interpretations the analyst develops to organize and explain first-order concepts" (Power and Gendron 2015, 155; Yin 2018). In developing second-order

21. We repeat our analysis of Hypothesis 2 using the average per participant (across the 18 periods), and inferences are unaffected. We also repeat all analyses using participants' raw NPI scores to proxy for narcissism. The results are similar to those presented in panel A of Table 6 with one exception: the interaction between auditor-client narcissism on *OFFERS* loses it statistical significance. This difference does not affect the results of our hypotheses tests. Importantly, the main effect of auditor narcissism is robust.

22. Specifically, we gave interviewees a brief description of narcissistic characteristics. Then we asked whether such characteristics (i) might cause delays in reaching agreement in auditor-client negotiations; (ii) might have a positive effect for the audit firm; (iii) play a role in the hiring or training processes; and (iv) play a role in assigning partners to engagements.

concepts, we focused on the similarities and differences between U.S. and Chinese interviewees.[23] To select the direct quotes included in this paper, each author first independently identified individual responses that could serve as "proof quotes" (i.e., quotes that show the prevalence of a point and systematically support the underlying arguments) (Pratt 2008, 2009; Malsch and Salterio 2016). Then, other authors reviewed and approved all of the selected quotes.

The negative effects of auditor narcissism

When we ask whether auditor narcissism might cause delays in reaching agreements in negotiations, interviewees generally give affirmative answers. For example, two U.S. interviewees assert that "I definitely think that can create a delay in reaching an agreement between the parties" (A1) and that "a strong personality is always hard for a discussion" (A5). Two Chinese interviewees state that "you may not be able to get what you expect and end up in an awkward situation" (C1) and that "you are very likely to clash" (C4). Furthermore, U.S. and Chinese interviewees provide similar accounts for why auditor narcissism may cause delays. Specifically, U.S. interviewees raise several points, including:

- Clients react negatively to narcissistic auditors. For example, a narcissistic auditor "puts the client on the defensive immediately." It is just "human nature" that when "you got put on the defensive, even though you may think that the person is right, you may say 'you know what? I am going to argue longer because I feel like I am being attacked'." (A2)
- Narcissistic auditors are not empathetic about clients' position. For example, lack of empathy "slows things down because then people feel like they need to explain to you why they feel the way they feel or their position because they know you are not respecting it." (A4)
- Narcissistic auditors make it difficult for clients to understand their position. For example "you've got to make the other person understand your point of view, as opposed to 'mine is the only right way' — that's not going to achieve good discussion." (A5)
- Narcissistic auditors are not credible. For example, auditors' narcissism "really lessens credibility, because they always push back because they always think they are right even when they are wrong." As a result, even when they are right, "it's kind of like the person that cries wolf." (A3)

Similarly, Chinese interviewees suggest that clients react negatively to narcissistic auditors (e.g., "if you act as if you are in a dominant position, I think the client will find it unacceptable" (C5)). While the issue of credibility is not mentioned, Chinese interviewees comment that auditor narcissism impairs the efficiency of communication (e.g., "the auditor may fail to consider all facts and possibilities; in those cases if the auditor is stubborn, it would easily cause conflicts" (C4)). This point is consistent with U.S. interviewees' view that auditor narcissism undermines mutual understanding in negotiations.

23. Two authors independently coded the second-order themes, with highly consistent results. A third author reviewed the coding and communicated with the coders to resolve the minor disagreement, which mainly lies in the level of abstraction/concreteness of the themes. For example, one coder developed four themes regarding U.S. interviewees' explanations for why auditor narcissism causes delays (clients' negative reaction, auditors' lack of empathy, lack of understandability, and lack of credibility), whereas the other coder identified three themes (attitudinal reaction, low communicative efficiency and effectiveness, and low credibility). We decided that in this case the more concrete coding is more descriptive of the underlying first-order concepts (details provided below).

The positive effects of auditor narcissism

When we ask about the potential positive effects of auditor narcissism, all interviewees suggest that it can reduce audit risk. First, U.S. and Chinese interviewees both point out that narcissistic auditors adhere to reporting the "materially correct answers" (A1) and thus "can absolutely lower audit risk" (C2). A U.S. interviewee comments that auditors should stand their ground even though "it may not be popular," because "what's right is what's right" (A2). Another interviewee states that it would be good for auditors to have a "strong and assertive personality" and hold their position firm even if this may mean losing the client (A3). Similarly, a Chinese interviewee notes that the auditor should "be disagreeable" even if the client only "marginally departs from the standards" (C5). Another interviewee (C1) gives an example of an audit engagement that a fellow partner was responsible for and later ran into serious problems with. He believes that this engagement failed because this partner gave in to the client.

Second, U.S. and Chinese interviewees both suggest that auditor narcissism is particularly helpful if the client takes a hard line in making aggressive accounting choices but provide different explanations as to how auditor narcissism works in these cases. U.S. interviewees think that narcissistic auditors fight fire with fire and force back aggressive clients. For example, two U.S. interviewees comment that:

- In cases in which CFOs are narcissistic, auditors need to "be assertive enough and self-confident enough to stand up to them and say no." (A2)
- If the client is "very assertive," then it would help to "have a partner that is also assertive and willing to push back on the client." (A4)

By comparison, Chinese interviewees have a softer tone, suggesting that narcissistic auditors respond to aggressive clients by firmly holding their own position (i.e., a more defensive approach). For audit differences that are not important to the client, narcissistic auditors are more likely to get them settled because the client may not be insistent (C2). For audit differences that are relatively important, two Chinese interviewees remark that:

- An agreement may not be achieved because the client is "too aggressive," but the partner "should consider both the benefit and risk" of the engagement in responding. (C1)
- "For clients who are a 'give an inch and he'll take a mile' type, if you make a concession, they will throw even more unreasonable demands at you." On the other hand, if the auditor holds his ground, "a client who originally wanted 100 percent might now soften his position and only ask for 50 percent." (C3)[24]

Finally, U.S. and Chinese interviewees both stress that the way auditors communicate with clients is important for the success of negotiations. While auditors should stand by their position and not waver on what they think is right, they need to give the client an opportunity to hear how they arrive at the answer (A1). Along these lines, two U.S. interviewees suggest that "you can have a personality where you think you are always right and be assertive, and still be respectful of others" (A4), and that auditors can make clients "feel that they have been heard" but "still end up with the right answer" (A2). Similarly, two Chinese interviewees suggest that auditors can tell clients "a risk for the auditor is indeed also a risk for the client" (C3) and make clients realize that "it is in their own interest" to book the adjustments proposed by auditors (C4).

24. The difference in the way narcissistic auditors respond to aggressive clients could relate to auditors' national culture: the Chinese care more about personal relationships, and thus may act in a less confrontational manner, than Americans do. Future research can compare the relative effectiveness of these culturally different negotiating approaches and examine their long-term impacts on the auditor-client relationships.

Implications for audit practices

Interviewees discuss audit firms' consideration of personality traits in their recruiting and training practices. Three Chinese interviewees indicate that their firms give personality tests in the hiring process (C1; C2) and coach auditors how to cope with clients of different personalities (C3). U.S. audit firms tend to incorporate personality dimensions in auditors' training in a more active and more involving manner. Two U.S. interviewees indicate that their firms offer role-play training sessions, whereby an auditor negotiates with a colleague who acts as "a difficult client" with the intention of "bulldozing the auditor," and other colleagues observe the interaction and provide critiques (A2; A3). Another interviewee's firm lets auditors self-assess their personality characteristics and then has external consultants help them analyze the potential consequences of the interaction between individuals with different personality traits (A4). It would be interesting for future research to explore how these training methods differentially influence auditors' personality development and, in turn, audit efficiency and effectiveness.

Interviewees also discuss the role of personality traits in the process of assigning partners to engagements. The most important determinant of such assignment is partners' industry expertise, a finding consistent with prior research (Cohen et al. 2014). However, Chinese and U.S. interviewees both point out that personality traits are also part of the consideration. For example, two Chinese interviewees suggest that, when assigning auditors' work, the firm typically considers their personality characteristics (C4; C5). In particular, for high-risk clients who are known to be contentious, the audit firm may send partners "who are highly professional, can stand firm on their ground, and know how to communicate" (C3). Similarly, a U.S. interviewee notes that, besides industry expertise, the partner's personality may be "one of the key drivers" in deciding who is assigned to the engagement (A4). Another interviewee explains that the partner's personality "definitely weighs into" the assignment process because "there are certain individuals within our business who feel as if fear and intimidation is a tactic to force auditors to come to a conclusion, and sometimes you need an extremely strong personality to show that's not a tactic that's going to implement success" (A1).

Overall, our interviews provide field evidence in support of our theory and hypotheses. The interviewees' responses are generally consistent with our archival and experimental results, triangulating that auditor narcissism can have negative and positive effects on audit practices. Furthermore, although our sample is small, the findings expand our understanding of the similarities and differences in the role of auditor narcissism between China and the United States. Such understanding can lead to considerable opportunities for future research.

6. Conclusion and discussion

This paper reports the results of three studies (archival, experimental, and qualitative) designed to examine the positive and negative effects of auditor narcissism on auditor-client negotiations in China. We examine these effects in the Chinese setting because China plays a vital role in the global economy and because Chinese auditors' behavior is influenced by their cultural and institutional environments, which differ considerably from Western environments. Our archival results show that auditor narcissism is positively associated with audit delay, and that auditor narcissism is linked to clients having smaller absolute and positive discretionary accruals, suggestive of less aggressive reporting choices. Our experimental results indicate that auditor narcissism is associated with more impasses and lengthier negotiations. Strikingly, when the auditor and client were both narcissistic, 33 percent of the negotiations failed to reach an agreement despite the loss of earnings caused by missed deadlines. On the other hand, when agreements are reached, auditor narcissism leads to more conservative outcomes. Our qualitative study using interviews with practicing audit partners provides field evidence in support of our theory. Overall, the data we collect from three different sources yield consistent results.

Prior narcissism research in accounting has largely focused on the adverse effects of narcissistic tendencies. For example, narcissistic executives tend to make more aggressive decisions (Majors 2016; Ham et al. 2017; Ham et al. 2018); and auditors who take a hard line in auditor-client negotiations are less likely to get the client to accept their proposed adjustments (Trotman et al. 2005; Sanchez et al. 2007). Consistent with this research, our study suggests that auditor narcissism may have a negative net influence (i.e., cause unnecessary audit delay) on audit efficiency when clients' reports are generally fair and reasonable.

More importantly, our study provides unique insight into the potential benefits of auditor narcissism for improving audit effectiveness. While prior studies show that client executives' narcissism increases audit risk (Johnson et al. 2013; Judd et al. 2017), our findings suggest that auditor narcissism leads to less aggressive financial reports and, thereby, lowers audit risk. In particular, our qualitative results suggest that narcissistic auditors can serve as a useful tool for dealing with contentious clients. Along these lines, our study also extends the accounting literature on how auditors' personality traits (e.g., dispositional perspective-taking and skepticism) influence audit quality (Quadackers et al. 2014; Church et al. 2015). We provide evidence that auditors' narcissistic characteristics can have a positive net influence (i.e., curbing opportunistic reporting) on audit quality when clients' reports are overly aggressive.

Furthermore, our findings help reconcile some of the seemingly inconsistent results of prior negotiation studies. For example, Hatfield et al. (2010) and Sun et al. (2015) find that clients' previous concessions lead to auditors' reciprocal concessions, but Bergner et al. (2016) do not find any difference in auditors' concessionary behavior regardless of whether clients made concessions previously. Such inconsistency could be due to the narcissistic characteristics of the participant pools (mainly audit managers and partners) used in these studies: 54 percent of Bergner et al.'s participants are partners, whereas the percentage is significantly lower in both Hatfield et al.'s study (39 percent; $p = 0.064$) and Sun et al.'s study (10 percent; $p < 0.001$). Because audit partners generally exhibit higher levels of narcissism than audit managers (Akers et al. 2014), it is possible that participants in Bergner et al. (2016) are, on average, more narcissistic (i.e., less likely to concede) than those in the other two studies.

Our findings provide ample avenues for future research. For example, Chen et al. (2016) find that audit clients engage in partner-level opinion shopping (i.e., pressure the audit firm to switch the partner who may give unfavorable opinions), which poses threats to audit quality (DeFond and Zhang 2014). Our findings suggest that narcissistic clients may be more successful in partner switching, and that narcissistic partners are more likely to be targeted for a switch. This trend, if existent, should raise concerns because, as discussed earlier, narcissistic clients tend to make aggressive reporting choices and narcissistic partners can resist such behavior. Hence, examining the role of narcissism in voluntary partner rotation can have important theoretical and policy implications.

Moreover, the PCAOB (2017, 2018) has noted that, in the audits of accounting estimates (e.g., fair values), auditors often fail to develop their own independent expectations but rather overrely on management's numbers. Such deficiencies are attributable to a variety of factors, including auditors' lack of expertise and cognitive limitations (e.g., the anchoring bias; Bratten et al. 2013; Griffith et al. 2015). It is possible that, controlling for knowledge and expertise, narcissistic auditors are less prone to cognitive biases such as anchoring and confirmation, because narcissists have high self-superiority and low regard for others. Studying the potential positive effect of auditors' narcissism on their use of management estimates (and, in turn, on audit quality) can also make a significant contribution to audit research and standard setting.

Besides its effect on auditor-client negotiations, auditors' narcissism may influence their relationships with other members of their own audit team. Prior literature finds that active interactions among audit team members (e.g., face-to-face discussions) improve the quality of client-risk

assessments (Carpenter 2007) and going-concern judgments (Agoglia et al. 2009). Insofar as auditors' narcissism negatively affects their communication with others and the likelihood of reaching consensus, as shown in our study, future research can test whether narcissism moderates the benefits of interactions within the audit team.

The implications of our findings for Western audit practices should be considered against the backdrop of the cultural, institutional, and legal differences between China and the West (Cohen et al. 1993; Nolder and Riley 2014). From a cultural perspective, due to the prevalent influences of collectivism and traditional Confucian values, Chinese people care a great deal about maintaining *Guanxi* (personal connections) in business negotiations (Graham and Lam 2003; Chung 2011). Thus, Chinese auditors are more likely than their Western counterparts to adopt a conflict-avoiding approach, granting more concessions to clients (Friedman et al. 2006).

Furthermore, Chinese auditors have lower tolerance of uncertainty but higher tolerance of power distance than Western auditors do (Hofstede 1984, 1997). As a result, Chinese auditors are more likely to consider clients' aggressive reporting choices acceptable if these choices do not blatantly violate accounting rules and are less likely to stand up to powerful or influential clients (Cohen et al. 1993, 1995; Schultz et al. 1993). More research is needed to systematically examine whether and how these cultural factors ultimately cause auditors' behavior to be different between China and the West.

From an institutional perspective, the Chinese audit market is less concentrated and more competitive than Western markets, thus increasing the likelihood that Chinese auditors will yield to clients over audit differences (Chan et al. 2006; Huang et al. 2015). Indeed, survey evidence suggests that Chinese auditors are more likely than their Western counterparts to grant concessions in negotiations (Tsui 1996; Lin and Fraser 2008). Future research can explore whether the cross-national differences in audit market conditions have differential impacts on audit efficiency and quality.

From a legal perspective, because the legal infrastructure is underdeveloped in China (e.g., class action mechanisms are virtually absent), investors find it difficult to file lawsuits against auditors, and when they do, such lawsuits are mostly unsuccessful (Chan et al. 2012; Jiang et al. 2015). So, Chinese auditors are subject to lower *litigation* risk than Western auditors are. On the other hand, Chinese auditors are closely monitored and controlled by the government (Liu et al. 2011).[25] Unlike the PCAOB's "soft" enforcement approach to "assist [audit firms] towards compliance rather than by wielding its sanctions in an aggressive manner" (PCAOB 2006; Wegman 2008, 82), the CICPA and CSRC use a more punitive enforcement approach, imposing penalties on auditors who violate auditing standards, including fines, license revocation, and criminal charges (Firth et al. 2005; Chen et al. 2011). Furthermore, the intense competition in the Chinese audit market creates an incentive for auditors to maintain a good reputation, which is critical for their survival and growth (Yang 2013; Li and Ma 2018). Therefore, while litigation is not a particular concern for Chinese auditors, they face higher *regulatory* risk than their Western counterparts do (Lisic et al. 2015). Given these differing risk factors, the total level of audit risk is not directly comparable between China and the West.

Overall, numerous distinctions exist in cultural, institutional, and legal environments between China and the West. The specific impacts of these distinctions on the generalizability of our findings to Western audit practices are difficult to predict without in-depth empirical analyses. Because such analyses are beyond the scope of the current paper, we leave them to future research.

25. The Chinese audit market is mainly regulated by the Chinese Institute of Certified Public Accountants (CICPA), an official authority under the Ministry of Finance, and the Chinese Securities Regulatory Commission (CSRC), the counterpart of the SEC in the United States (Chen et al. 2005).

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