

UNIVERSITÉ DU QUÉBEC À MONTRÉAL

AN EMPIRICAL STUDY OF CANADIAN COMPANIES TO DETERMINE
THE CLIENT'S PERSPECTIVE ON THEIR PREFERRED RELATIONAL APPROACH WITH
THEIR FINANCIAL AUDITOR.

THÈSE
PRÉSENTÉE
COMME EXIGENCE PARTIELLE
DU PH.D. EN ADMINISTRATION

PAR
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MARS 2010

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UNIVERSITÉ DU QUÉBEC À MONTRÉAL

UNE ÉTUDE EMPIRIQUE DES COMPAGNIES CANADIENNES À DÉTERMINER LA
PERSPECTIVE DU CLIENT SUR SON APPROCHE RELATIONNELLE PRÉFÉRÉE
AVEC SON AUDITEUR FINANCIER.

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TABLE OF CONTENTS

LIST OF FIGURES.....	vii
LIST OF TABLES	viii
RÉSUMÉ.....	x
ABSTRACT.....	xii
INTRODUCTION	1
CHAPTER I LITERATURE REVIEW	5
1.1 Audit review	5
1.1.1 Auditor Tenure	5
1.1.2 Negotiations.....	7
1.1.3 Marketing Perspective.....	9
1.1.4 Client Dissatisfaction	11
1.1.5 Client Cooperation.....	12
1.1.6 Summary of Audit research.....	13
1.2 Marketing review	14
1.2.1 Relationship Marketing.....	14
1.2.2 Theoretical Support.....	17
1.2.3 Empirical Evidence.....	17
1.2.4 Client Perspective	19
1.3 Overview	19
CHAPTER II CONCEPTUAL FRAMEWORK	21
2.1 Principle Hypothesis (H1)	21
2.1.1 Buyer-Seller Relationship	21
2.1.2 Audit-Client Relationship.....	22
2.1.3 Transactional Preference Theory	25
2.1.3.1 Transaction Cost Analysis	26
2.1.3.2 Power theory (Resource Dependency)	26
2.1.4 Relational Preference Theory	27
2.1.4.1 Demand for audit (agency theory)	27
2.1.4.2 Added-Value audit	29
2.1.4.3 Relational theory	31
2.1.5 Principle Hypothesis Summary	33
2.2 Secondary Hypotheses.....	35
2.2.1 Risk Aversion	35

2.2.2	Ethics of Care	36
2.2.3	Locus of Control	39
CHAPTER III METHODOLOGY		43
3.1	Research Design.....	43
3.2	Measurement instrument (Hypothesis 1)	45
3.2.1	Elbekkali and Pilote (2004).....	48
3.2.2	Coviello <i>et al.</i> (1997)	49
3.2.3	Kaufmann and Dant (1992).....	50
3.2.4	Six Relational Dimensions	51
3.2.4.1	Relational focus	51
3.2.4.2	Solidarity.....	52
3.2.4.3	Mutuality.....	52
3.2.4.4	Flexibility.....	53
3.2.4.5	Role integrity	53
3.2.4.6	Restraint.....	54
3.2.5	Relational Preference measurement (RA and TA).....	54
3.2.6	Visual Analogue scale (VAS)	57
3.2.7	Measurement modifications	59
3.2.8	Response bias	59
3.3	Measurement of Hypotheses 2-4.....	61
3.3.1	Risk Aversion.....	61
3.3.2	Ethics of Care	61
3.3.3	Locus of Control	62
3.4	Data Collection	63
3.5	Participants.....	64
3.6	Sample Size and Data Lists.....	68
3.7	Questionnaire Pre-testing	71
3.8	Questionnaire Pre-test (1st Round).....	71
3.9	Questionnaire Pre-test (2nd Round).....	74
3.10	Efforts to increase response rates.....	76
CHAPTER IV PRELIMINARY DATA ANALYSIS		79
4.1	Data collected.....	79
4.2	Rating Procedure of Section A, B and C in Questionnaire.....	80
4.3	Description of Sample.....	82
4.4	Missing Data	84

4.5	Summated scale, Reliability, Validity of the Relational Preference Variable	87
4.6	Reliability and Validity of Secondary Variables	96
4.7	Normality of Relational Preference variable and the secondary variables	100
4.8	Non-Respondent Bias	101
4.9	Influence of Corporate and Personal information on main variables.....	102
4.9.1	Gender.....	102
4.9.2	Experience in Position, Experience in Area of work and Time with Firm ...	103
4.9.3	Services.....	104
4.9.4	Size of audit firm.....	104
CHAPTER V ANALYSIS OF HYPOTHESES		107
5.1	Hypothesis 1.....	107
5.2	Hypothesis 2.....	119
5.3	Hypothesis 3.....	121
5.4	Hypothesis 4.....	123
CHAPTER VI DISCUSSION		129
6.1	Objective of the study	129
6.2	Relational Preference Findings (Hypothesis 1).....	132
6.3	Secondary variable Findings (Hypotheses 2, 3, 4).....	141
6.3.1	Risk Aversion (Hypothesis 2).....	141
6.3.2	Ethics of Care (Hypothesis 3)	142
6.3.3	Locus of Control (Hypothesis 4).....	144
6.4	Personal and Corporate Findings	145
6.4.1	Gender.....	145
6.4.2	Audit Services	145
6.4.3	Time with audit firm	146
6.4.4	Type of Firm	146
CHAPTER VII CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH.....		148
7.1	Conclusion	148
7.2	Limitations of the study	150
7.3	Future Research.....	152
APPENDIX A COVER LETTER.....		155
APPENDIX B CMA CANADA LETTER OF SUPPORT		156
APPENDIX C RELATIONAL PREFERENCE QUESTIONNAIRE		157
APPENDIX D RISK AVERSION QUESTIONNAIRE.....		163

APPENDIX E ETHICS OF CARE QUESTIONNAIRE	165
APPENDIX F LOCUS OF CONTROL QUESTIONNAIRE.....	168
APPENDIX G PERSONAL AND CORPORATE INFORMATION QUESTIONNAIRE	172
APPENDIX H PHONE CONVERSATION	173
APPENDIX I RELATIONAL PREFERENCE FRENQUENCIES.....	174
APPENDIX J SCOTT.....	181
APPENDIX K DUNN AND BRADSTREET	182
APPENDIX L PROFILE CANADA	183
BIBLIOGRAPHY	184

LIST OF FIGURES

Figure 2.1	Buyer-seller dyadic relationships (Gummesson 2002).....	21
Figure 2.2	Three parties involved in an assurance engagement. (CICA 2006 5025.07).....	23
Figure 2.3	The Amount of Power Wielded by Professionals Vis-a Vis Paying Clients (Goldman and Barlev 1974 pg 336)	26
Figure 2.4	Conceptual model: The client's preferred relationship approach	42
Figure 3.1	TA and RA Dimensions (Elbakkali and Pilote 2004).....	48
Figure 3.2	Visual Analogue Scale (Elbakkali, 1999).....	59
Figure 4.1	Relational scale	81
Figure 6.1	Final Conceptual Model: The client's preferred relational approach	131

LIST OF TABLES

Table 2.1	The Kohlberg-Gilligan differences.....	37
Table 3.1	TA and RA Dimensions (Coviello <i>et al.</i> , 1997; 2002).....	49
Table 3.2	TA and RA Dimensions (Kaufmann and Dant, 1992).....	55
Table 3.3	Relational Dimensions (Rokkan and Haugland, 2000).....	56
Table 3.4	Relational Dimensions (Fink <i>et al.</i> 2007).....	57
Table 3.5	Operational measures of research variables for Hypotheses 2-4.....	63
Table 4.1	Questionnaire Description.....	82
Table 4.2	Personal and Corporate information.....	83
Table 4.3	Relational Preference (Percentage of missing data).....	85
Table 4.4	Risk Aversion (Percentage of missing data).....	85
Table 4.5	Ethics of Care (Percentage of missing data).....	86
Table 4.6	Locus of Control (Percentage of missing data).....	86
Table 4.7	Exploratory Factor Analysis (FA).....	89
Table 4.8	Relational Preference (20 items).....	90
Table 4.9	Relational Preference (18 items: solpref3 and mutpref3 are removed).....	92
Table 4.10	Dimension Correlations.....	95
Table 4.11	Reliability of three Secondary Variables.....	96
Table 4.12	Correlations of secondary variables with demographics.....	97
Table 4.13	Care-Justice correlations.....	99
Table 4.14	Tests of Normality.....	101
Table 4.15	Non-parametric test for non-response bias.....	102
Table 4.16	Comparison of the means of variables separated in function of demographic data.....	105
Table 5.1	Classification of Relationship Preferences.....	109
Table 5.2	One-Sample Statistics.....	110
Table 5.3	One-Sample Test.....	111
Table 5.4	Paired Samples Test (18 Items versus Midpoint).....	113
Table 5.5	Relational Preference (18 item score).....	114

Table 5.6	Distribution of 15 factors significantly higher than midpoint.	115
Table 5.7	Paired Samples Test (6 Dimensions versus Midpoint).....	116
Table 5.8	Paired Samples Test (6 Dimensions versus Midpoint).....	117
Table 5.9	Dimension scores.....	118
Table 5.10	Risk aversion correlation with Relational Preference factors.....	120
Table 5.11	Ethics of Care correlation with Relational Preference factors.....	122
Table 5.12	Locus of Control correlation with Relational Preference factors	124
Table 5.13	Mean Comparison for Primary Hypothesis (H1).....	127
Table 5.14	Correlation summary for Secondary Hypotheses (H2-H4)	127
Table 5.15	Simple and multiple regressions	128
Table 6.1	Relational Preference (18 item score).....	133

RÉSUMÉ

L'objectif principal de cette recherche est de déterminer l'approche relationnelle que le client préfère utiliser dans sa relation avec son auditeur financier. De connaître cette préférence relationnelle est important puisque l'auditeur requiert la coopération de son client afin de combler l'asymétrie d'information existant entre les deux parties. De plus, de mieux connaître la préférence relationnelle de son client permettrait à l'auditeur d'aligner son approche marketing sur celle de son client, lui permettant d'être plus efficace quant à ses ressources et de mieux satisfaire les besoins de ce client. L'objectif secondaire est de déterminer l'influence de certaines caractéristiques personnelles du client sur sa préférence relationnelle avec son auditeur.

Pour atteindre ces objectifs, nous avons développé une théorie sur la base de modèles existant dans la littérature en marketing, mais adaptée au contexte particulier qui est celui de l'audit. Conséquemment, nous avons défini les variables permettant de mesurer les relations entre les clients (acheteurs) et leurs auditeurs (vendeurs) suivant celles qui, dans la littérature en marketing, ont été théoriquement définies et empiriquement validées (Fink *et al.*, 2007; Kaufmann and Dant, 1992; Macneil, 1980; Paulin *et al.*, 1997; Rokkan *et al.*, 2003). En effet, les approches relationnelles sont définies par deux construits : l'approche relationnelle (RA) et l'approche transactionnelle (TA). RA est une approche où l'objectif du vendeur est d'établir et maintenir des relations, tandis que TA est une approche économique à court terme où l'objectif du vendeur est de gagner des clients et d'augmenter sa part du marché (Gronroos, 1994; 2000; Gummesson, 2002; Paulin *et al.*, 1997). L'hypothèse principale de notre étude spécifie que le client préférera davantage une approche relationnelle qu'une approche transactionnelle avec son auditeur financier. Trois hypothèses secondaires vérifient l'influence de l'aversion au risque, de l'éthique de l'attention et du locus de contrôle du client sur sa préférence relationnelle.

Pour tester les hypothèses nous avons effectué un sondage par questionnaire auprès de 1090 participants travaillant pour des sociétés privées canadiennes. 306 questionnaires ont été complétés et retournés. L'analyse des données indique que l'hypothèse principale, à savoir que le client préfère davantage une approche relationnelle (RA) avec leur auditeur qu'une approche transactionnelle (TA), est supportée. Les résultats portant sur les facteurs individuels des mesures des approches relationnelles confirment que le client préfère la coopération et le partage d'information avec son auditeur, de même qu'un haut niveau de confiance vis-à-vis de celui-ci, tous des facteurs relatifs à l'approche relationnelle (RA). Cependant, nonobstant la préférence du client pour une approche relationnelle avec son auditeur, le client préfère également demeurer à une certaine distance de celui-ci (*Arm's length*). Ce facteur est pourtant relatif à une relation transactionnelle (TA) plutôt que relationnelle (RA). Les hypothèses secondaires, quant à elles, ne sont pas supportées. Sur la base des résultats, un nouveau modèle conceptuel des relations entre le client et l'auditeur est présenté, modèle qui diffère sensiblement de ceux qui existent dans la littérature en marketing.

Notre étude présente des contributions significatives tant théoriques que pratiques. Cette étude permet de mieux comprendre la relation entre le client et son auditeur, selon la perspective du client. De fait, un nouveau modèle est présenté afin de mieux comprendre la relation entre le client et son auditeur, modèle pouvant servir de base à des recherches futures. De plus, d'un point de vue pratique, si l'auditeur peut mieux connaître et comprendre les préférences relationnelles de ses clients, il pourrait être à même de mieux définir ses stratégies de marketing.

Mots-clés : approche relationnelle (RA), approche transactionnelle (TA), auditeurs, vérificateurs, clients, acheteurs, vendeurs.

ABSTRACT

The main objective of this research is to determine the relationship approach that the client prefers to have with their financial auditor. It is important that we deepen our understanding of auditor-client relationships from the client perspective since the success of the audit service is considered the result of relationship success between auditors and their clients. In addition, client cooperation with the auditor is an important part of the audit service, since the client possesses information that the client needs (information asymmetry in favour of the client (Beattie *et al.*, 2001). The secondary objective of this research is to determine the influence of certain personal characteristics of clients on their relational preference with their auditor.

To achieve these objectives, we developed a theoretical framework based on existing models in the relationship marketing literature. We borrowed a multi-item measurement instrument that was theoretically defined and empirically validated in the marketing literature (Fink *et al.*, 2007; Kaufmann and Dant, 1992; Macneil, 1980; Paulin *et al.*, 1997; Rokkan *et al.*, 2003). In this literature, relationships are described as relational or transactional. The relational approach is a long-term approach where the objective is to maintain relationships. The transactional approach is a more short-term, economic approach, where the objective is limited to the transaction (Gronroos, 1994; 2000; Gummesson, 2002; Paulin *et al.*, 1997). The main hypothesis of our study is that clients would prefer a more relational approach than transactional approach with their financial auditor. In addition, three secondary hypotheses are used to verify the influence of risk aversion, ethics of care, and locus of control on the client's preferred relational approach.

To test our hypotheses, we conducted a mail survey of 1090 participants in Canadian private companies. Three hundred and six questionnaires were completed and returned. Data analysis lends support to the main hypothesis, that clients prefer a more relational approach (RA) over a transactional approach (TA) with their auditor. Moreover, individual item analysis confirms that client's prefer cooperation and the exchange of information as well as a high level of trust with their auditor. However, notwithstanding the client's preference for a relational approach, the client also wants to maintain a certain distance with their auditor (Arm's length). The secondary hypotheses are not supported. Based on the results of our study, a new conceptual model is presented, which is different from buyer-seller models in the existing marketing literature.

Our study presents significant contributions, theoretical as well as practical. This study results in a deeper understanding of the auditor-client relationship from the perspective of the client. As a result, a new conceptual framework is developed that could serve as a basis for the future research of auditors and their clients.

Key Words: relationship marketing, relational approach (RA), transactional approach (TA), auditors, clients, buyers, sellers.

INTRODUCTION

The auditor-client relationship is an important component of a company's year-end financial audit process. In fact, some researchers consider corporate audited financial statements to be the product of negotiations between clients and their auditors (Iyer and Rama, 2004).

In the auditor-client relationship, in addition to the auditor, the client plays an important role. The client's perception of their relative power influences their tactics and strategies in negotiations with the auditor (Iyer and Rama, 2004). Moreover, client cooperation with their auditor is an important part of the audit process, since the client possesses information that the auditor needs: information asymmetry in favour of the client (Beattie *et al.*, 2001).

In addition to client power and client information asymmetry, there has been concern over auditor independence, due to auditor acquiescence towards client demands (Kleinman and Palmon, 2000; Kopp *et al.*, 2003; Shafer *et al.*, 2004). Client acquiescence, by the auditor, has also been given as a cause of unethical behaviour (Tsui and Gul, 1996). This has given rise to the call for mandatory rotation by organizations such as the US Securities and Exchange Commission (Arel *et al.*, 2005; George, 2004).

Therefore, the client's perspective of their relationship with their auditor is important. However, very little direct evidence of the audit client's relationship perspective is available in the academic literature. Audit-client relationships regarding negotiations have been studied from the auditor's perspective (Saltario and Koonce, 1997), and researchers have called for additional studies to capture the client perspective (Gibbens *et al.*, 2001; Iyer and Rama, 2004). In addition, Beattie *et al.* (2001) stress the importance of additional research to improve our understanding of the audit client's relationship behaviour using marketing and psychology theory, given the limitations of economic theory.

Different theory exists that could help better understand the client's relationship perspective. Some theory describes the audit service as routine and non-value added, which does not benefit the client (Goldman and Barlev, 1974; Green, 2006). In addition, audit services have been perceived as a commodity, where clients seek the lowest price (Kleinman and Palmon,

2001; Schmidt and Sanborn, 1987). Moreover, Transaction Cost Analysis (TCA) and Opportunism explain that the financial external auditor is considered an outsider and the auditors' motives are considered suspicious by the client; therefore, the auditor is expected to receive little cooperation from the client (Williamson, 1975).

In contrast, other theory describes the audit as a value-added service and important to the client (Beattie *et al.*, 2000; Eilifsen *et al.* Knechel, 2001). In addition, agency theory explains that the client (agent) has an interest in providing accurate, favourable, and low cost information to the third party users (principles) (Wallace, 1980); therefore, the client would see value in the audit service.

Theory from the Marketing literature explains that when clients perceive a service as a commodity, with little value, they would prefer not to have a relationship with their service provider (Berry, 1995; Gronroos, 1997; 2000; Gummesson, 2002; Pels *et al.*, 2000; Sheth and Parvatiyar, 2000). However, when a client perceives a service as value added and important, they desire a relationship with their service provider (Berry, 1995; Gronroos, 1997; 2000; Gummesson, 2002; Pels *et al.*, 2000; Sheth and Parvatiyar, 2000).

Based on the differing theories, mentioned above, it could be argued that the audit is important to clients, who would prefer a relationship with their auditor. However, a contrasting argument could be made that the audit client perceives the audit as a non-value added service and does not desire a relationship with their auditor. Therefore, it is not clear, from the theory in the academic literature, whether or not the client would prefer to have a relationship with their auditor. To the best of our knowledge, there is very little empirical research that provides direct evidence regarding the audit client's relationship preferences. Marketing researchers claim that even though there is a good deal of theory regarding buyer-seller relationships, there is a need for further empirical work, especially from the client perspective (Sorce and Edwards, 2004). Therefore, in response to the need for additional research, the objective of this study is to determine, empirically, the audit client's relational preference with their financial auditor.

Drawing on variables from the Relationship Marketing literature, we define and measure a relationship approach between a buyer and a seller. Relationship Marketing is a well-documented part of the academic Marketing literature, where buyer-seller relationship

constructs are conceptualized and empirically tested, using multi-dimensional measurement instruments. In the Relationship Marketing literature, a relationship between a buyer and seller is defined by two relationship approaches: the Relational Approach (RA)¹ and the Transactional Approach (TA)². The RA is a long-term approach, where the objective is to maintain relationships (Gronroos, 1994; 2000; Gummesson, 2002; Paulin *et al.*, 1997). The TA is a more short-term, economic approach, where the objective is limited to the transaction (Gronroos, 1994; 2000; Paulin *et al.*, 1997). We predicted that the clients surveyed would prefer more of a RA than TA with their auditor.

We measured the client's relationship approach preference using a multi-dimensional measurement instrument, conceptually defined and empirically tested (Fink *et al.*, 2007; Kaufman and Dant, 1992; Paulin *et al.*, 1997; 2000; Rokkan and Haugland, 2000). In addition, we investigated three personal characteristics that could influence the client's preferred relationship approach with their auditor: risk aversion, ethics of care, and locus of control.

After pre-testing several Marketing variables for their relevant use in the audit context, we conducted an empirical study in which we surveyed financial professionals from Canadian corporations to measure their relationship preferences with their financial auditors.

The results confirm our hypothesis that Canadian audit clients prefer more of a Relational Approach (RA) than a transactional approach (TA), with their financial auditor. Individual item results indicate that audit clients prefer cooperation, trust, and willingness to continue their relationship with their auditor, among other results. However, the audit client also respects the auditor's obligation to remain independent by preferring to remain at arm's length, a characteristic pertaining to the Transactional Approach (TA).

Our results contribute theoretically by contradicting power models and resource dependency theory. Audit clients seem to prefer not exercising their power in order to maintain a relationship with their auditor. Our study also contributes practically, as auditors need to

¹ RA will be further explained in the Marketing Literature Review

² TA will be further explained in the Marketing Literature Review

know clients' relationship preferences to assure client satisfaction and better manage marketing resources.

We structure our research as follows. We present an Audit and Marketing literature review, followed by a conceptual framework, which leads to our hypotheses. We then explain our approach to analyze the hypotheses in a methodology chapter. We present the results of our survey in two chapters: a preliminary analysis and an analysis of hypotheses. We conclude by discussing our overall results, the study's limitations, and opportunities for future research.

CHAPTER I

LITERATURE REVIEW

The following chapter includes an Audit literature review and a Marketing literature review. The objective of the Audit literature review is to highlight various studies of auditor-client relationships to determine the elements of the relationship we understand and the areas where we could increase our knowledge. We group the studies into categories containing common subjects: auditor tenure, negotiations, relational approach, client dissatisfaction, and client cooperation. We conclude the Audit literature review by discussing the need for future empirical research with the help of Marketing theory.

In the Marketing literature review, we explain the Relationship Marketing perspective and differentiate two constructs: the Relational approach (RA) and the Transactional approach (TA). We present the theory that supports each construct with a brief description of the empirical work that helps define the variables used to measure the constructs. Finally, we demonstrate the importance of the client perspective in a buyer-supplier relationship.

1.1 AUDIT REVIEW

1.1.1 Auditor Tenure

Auditor tenure has sparked debate in the audit literature and the results are mixed. Calls for mandatory rotation of audit firms have triggered opposing views by the scientific community, as well as by regulators. The central question surrounding the debate is whether longer auditor-client relationships (auditor tenure) reduce earnings quality because of client acquiescence causing reduced auditor independence (Shafer *et al.*, 2004). The proponents of mandatory rotation, such as the Securities and Exchange Committee, believe that poor quality earnings are associated with longer auditor tenure due to impaired auditor independence (Arel *et al.*, 2005; George, 2004). However, opponents of mandatory rotation, such as the American Institute of Certified Public Accountants (AICPA), argue that auditor rotation would increase audit start up costs and over reliance on client estimates, since the

auditor would not have the time to obtain firm-specific knowledge (George, 2004). The AICPA analyzed audit failures and found that failures are three times more likely when the auditor is conducting its first or second audit (George, 2004). The results are explained by the auditor's lack of knowledge of the client's business. This study was in response to Section 203 of the Sarbanes Oxley act, which requires a 5-year mandatory rotation for the lead audit partner (Cumunale *et al.*, 2003).

In addition, research has shown that clients in a short-term relationship are more able to persuade the auditor to accept the client position (Iyer and Rama, 2004). These results are justified by the reasoning that in early years the auditors are easier to influence, since they are in the process of recuperating costs. The costs for the auditor in the early years are described as start-up costs, such as the cost of understanding the client's business and starting the audit process (DeAngelo, 1981).

Other research has used economic models to measure the association between auditor independence and earnings management, which were related to auditor-client tenure. Higher earnings quality was found to be associated with longer auditor tenure, showing that longer auditor tenure did not negatively affect independence and audit quality (DeAngelo, 1981; Myers *et al.* 2003). The explanation for these results was that longer auditor-client relationships resulted in auditors placing greater constraints on extreme management decisions in financial reporting (Myers *et al.* 2003).

Arel *et al.* (2005) add to the auditor tenure debate by arguing that regardless of the length of the auditor-client relationship, auditors and management must interact regularly to assure an effective audit. In addition, research has shown that regardless of the length of the auditor-client relationship, high audit quality has been associated with the audit team's positive personal experience with the client (Carcello *et al.*, 1992; Craswell and Francis, 1999).

The literature dealing with auditor tenure highlights conflicting viewpoints. One argument is that the auditor that has a long duration with the client becomes too close and less independent, resulting in lower earnings quality. However, others argue that being close to the customer is important to assure client knowledge and higher audit quality. It is not clear in the literature how or why auditor tenure influences audit quality. The auditor tenure studies present interesting associations between auditor tenure and earnings quality;

however, they fail to explain behavioural characteristics of the auditor-client relationship (Beattie *et al.*, 2001).

1.1.2 Negotiations

There are behavioural studies that investigate the negotiation process between auditors and clients (Beattie *et al.*, 2000; 2001; 2004; Gibbens *et al.*, 2001; 2005; Iyer and Rama, 2004; Kleinman and Palmon, 2000; 2001; Trotman *et al.*, 2005). Negotiations between auditors and clients are important since financial statements are considered to be the result of auditor-client negotiations (Gibbens *et al.*, 2005; Iyer and Rama, 2004).

The negotiation literature review highlights conflicting results. Gibbens *et al.*, (2001) developed a theoretical model based on contextual features from the accounting literature as well as from interviews of 18 audit practitioners. The framework of the model was based on a three-element process: identifying an accounting issue, the auditor-client process, and the accounting outcome (Gibbens *et al.*, 2001). Based on their model, a questionnaire was developed and completed by 93 audit partners. The audit partners identified technical issues with public-company clients, frequently arising from the interpretation of external standards. Examples of these technical issues are income measurement and balance sheet valuation (Gibbens *et al.*, 2001). The outcomes of the negotiations were mostly agreements, and the partners' perceptions were that both parties desired a mutual agreement. Gibbens *et al.* (2001) only took into account the audit partner perspective and did not consider the client perspective.

Based on the theoretical model developed in Gibbens *et al.* (2001), Gibbens *et al.* (2005) sent questionnaires to audit partners and chief financial officers (CFOs) to capture both sides of the negotiation. Gibbens *et al.* (2005) found that CFOs and audit partners prefer that the negotiation with the audit firm ends with a distributive (win-lose) outcome, where the parties try to convince the other party to accept its position (Gibbens *et al.*, 2005). Gibbens *et al.* (2005) claim that their results are contrary to the negotiation literature, in which most partners seek an integrative (win-win) solution. These results are criticized for relying on the Gibbens *et al.* (2001) model as the unique theoretical framework and not referring to a wider scope of general negotiation theory (Johnstone, 2005). For example, Gibbens *et al.*'s (2005)

results differ from negotiation theory, where both parties desire a win-win solution (Fisher and Ury, 1991).

Beattie *et al.* (2000; 2004) found opposing results to those of Gibbens *et al.* (2005), where audit clients desired a more cooperative relationship during negotiations that resulted in an integrative solution (win-win) (Trotman *et al.*, 2005). Cooperative relationships, where both parties work to achieve an optimal solution, have been shown to result in long-term relationship success (Beattie *et al.*, 2001; 2004; Kleinman and Palmon, 2000). Beattie *et al.* (2000) conclude, after interviews, that agency theory is inadequate to explain the auditor-client relationship because the auditor is a source of advice and the audit service is the result of cooperative effort from the two parties: client and auditor.

Most of the auditor-client negotiation studies capture the auditor perspective (Beattie *et al.*, 2004; Gibbens *et al.*, 2001; 2005; Saltario and Koonce, 1997), and there are still requests for further empirical investigations of the client's perspective on auditor-client negotiations (Iyer and Rama, 2004). In addition, the CFO (Client) perspective is important because it influences a company's financial reporting, and the CFO viewpoint is absent in the academic literature (Gibbens *et al.*, 2005). The client perspective is considered important, since it will influence the way the client negotiates, which affects the result of the negotiation and ultimately has an impact on the audited financial statements (Gibbens *et al.*, 2001; Iyer and Rama, 2004).

The perspective of the CFO in Gibbens *et al.* (2005) is studied to determine the type of negotiation regarding a certain identified issue. What is missing in Gibbens *et al.* (2005) is the CFO perspective of their desired relationship approach with their auditor. This is important because, as we mention above, the auditor needs the cooperation of the client (Kopp *et al.*, 2003; Iyer and Rama, 2004; Bame-Aldred and Kida, 2007), and if auditors better understand the client's desired relationship approach, they could strategize to help clients become more cooperative (a relational approach (RA) includes cooperation). For example, Bame-Aldred and Kida (2007) found that clients are more flexible than auditors are, when faced with a conflict situation. Moreover, future research is requested for a deeper understanding of the auditor-client relationship and the effects on the negotiation model (Gibbens *et al.*, 2005).

In addition, Gibbens *et al.* (2005) argue that auditors should be trained to better understand the client's perspective to assure a win-win solution. Negotiation theory shows that understanding the opponent's perspective is important to achieve a win-win solution (Neale and Bazerman, 1985).

To summarize, the negotiation research fails to provide results backed up with theory that could help explain the relationship dynamics between two parties, which is important in negotiations (Fisher and Ury, 1991). Moreover, the negotiation literature does not consider important elements of business negotiations such as the relationships between buyers and sellers, which have been well documented in the Marketing and Negotiation literature (Fisher and Ury, 1991; Gronroos, 2000; Morgan and Hunt, 1994; Sheth and Parvitiyar, 1995; 2000; Ury, 1993). For auditors, knowing the client perspective could help increase client cooperation.

Finally, the negotiation literature is limited to negotiations over disputes of a technical nature, mostly related to balance sheet valuation and income measurement; and not other strategic issues such as audit planning, audit quality, and audit communications. The following section describes the Marketing perspective of the auditor-client relationship.

1.1.3 Marketing Perspective

The auditor-client relationship has been studied using a Marketing perspective. Ruyter and Wetzels (1999) surveyed clients of a large audit firm to determine their motivation to continue a relationship with their audit firm. The authors drew on the Relationship Marketing literature to build a conceptual framework, which was empirically tested by a field questionnaire. Basing their conceptual model on the Morgan and Hunt (1994) Trust and Commitment model, Ruyter and Wetzels (1999) determined antecedents and consequences of client commitment. The study highlighted the importance of affective (emotional) commitment in auditor-client relationships (Ruyter and Wetzels, 1999).

The participants of the empirical portion of the Ruyter and Wetzels (1999) study were clients of a Big-Four audit firm from the Netherlands. The service portfolio studied included audit, related audit services, tax, and management advisory services. The authors relied on a 1995 survey conducted by a Netherlands's audit firm, which was used as a practical justification

for their research objective. The survey showed that 35% of the clients that switch audit firms say the reason is due to dissatisfaction with the quality of the auditor-client relationship (Ruyter and Wetzels, 1999). In addition, when selecting new audit firms, 12% of respondents said relationship quality was the most important factor; whereas, only 9% of respondents claimed price as the most important factor (Ruyter and Wetzels, 1999). The Netherlands audit firm requested academic and in-depth information to investigate what is a quality relationship and what influences client commitment. The overall results showed that, based on Morgan and Hunt's (1994) Commitment-Trust Theory, service quality, trust, and interdependence lead to higher levels of commitment, which increased the clients' willingness to continue with their audit firm (Ruyter and Wetzels, 1999).

The results of Ruyter and Wetzels (1999) also showed that affective (emotional) commitment and not calculative commitment was a significant determinant of cooperation, which in turn positively influenced the client's willingness to continue with their audit firm. The authors stress the importance for audit firms to emphasize activities with their clients that promote positive feelings of affiliation, given the importance of affective commitment on cooperation and the client's willingness to continue with their audit firm (Ruyter and Wetzels, 1999). The audit firm, in this study, wanted to know what motivated their clients' desire to cooperate and continue their relationship. The authors stress further client research in other geographic markets (Ruyter and Wetzels, 1999).

In addition, Elbakkali and Pilote (2004) conducted a field survey of Quebec audit partners to investigate their preferred relationship approach when dealing with their clients. To conceptualize a relationship approach, the authors drew on academic marketing literature which categorized buyer-seller relationships as a Relational approach (RA)³ versus a Transactional approach (TA)⁴ developed from theoretical and empirical marketing studies. Elbakkali and Pilote (2004) hypothesized that audit partners would prefer a RA that would result in greater customer loyalty, since it is more costly to look for new clients, rather than maintaining existing ones. Conducting a field survey of Quebec audit partners, 259 questionnaires were answered by audit partners in the greater Montreal area. The hypothesis that audit partners would prefer a RA with their clients was supported.

³ RA will be further explained in the Marketing Review (Section 1.2)

⁴ TA will be further explained in the Marketing Review (Section 1.2)

Based on the same questionnaire survey, Pilote and Elbakkali (2004) found that firm size does not significantly influence the partners' marketing approach. In addition, Pilote and Elbakkali (2004) extended the Elbakkali and Pilote (2004) study to investigate the client characteristics that could influence the partners' marketing approach. The client characteristics studied were clients' business risk, integrity and honesty, personnel's competency, financial situation, size, and growth potential. The results showed that clients' business risk and personnel's competency had no significant influence on the audit partner's marketing approach (Pilote and Elbakkali, 2004).

Similarly, Elbakkali and Pilote (2002) studied the influence of risk, economic and ethical factors on audit partners' long-term client relationship strategy. The results showed that only risk and economic factors influenced the partner's use of a long-term relationship strategy. Ethical factors did not show an influence.

Given the importance of matching auditor and client relational preferences to assure effective resource allocation, Elbakkali and Pilote (2004) request future research to investigate if clients' perceptions of their willingness to pursue their relationship and their willingness to cooperate match partners' perceptions. Additional research shows that clients are dissatisfied with their relationships with their auditor.

1.1.4 Client Dissatisfaction

Clients find their auditors less helpful as auditors offload work and risk onto the client, yet the auditor maintains or increases audit fees, which results in client dissatisfaction (Nixon, 2005). The relationship is strained and clients do not feel important to auditors (Nixon, 2005). A survey conducted among audit clients show that auditors score very high in terms of trust, personal ethics, integrity, and maintaining independence. However, results show that the accounting profession suffers from serious auditor-client relationship issues, which are different from the Enron headlines (Taub, 2002). The client does not feel important in the eyes of the auditor (Nixon, 2005). The problems with client issues are not related to price or quality but rather relationship issues (Aquila and Koltin, 1992). Irrespective of auditor-client relationship issues, very little direct empirical evidence exists from the client perspective as to what is their desired relationship approach with their auditor. More specifically, little is known about the audit client's willingness to cooperate with their auditor.

1.1.5 Client Cooperation

The auditor's relationship with their client is an important part of the overall audit service as the auditor relies on the client for shared knowledge and accurate information (Eilifsen *et al.*, 2001). There is also evidence that the need for client collaboration with their audit firm is increasing in importance due to the audit complexity and need for client involvement (Nixon, 2005; O'Sullivan, 2004; U.S. Chamber, 2006).

In addition, Dawson (2005) warns about the commoditization of the audit profession because the services are provided at arm's length. The only way to avoid that audits become commodities is for the auditor to establish cooperative knowledge-based relationships with their clients (Dawson, 2005). A close relationship between the auditor and the client results in knowledge sharing, which is critical to the audit process (Arel *et al.*, 2005).

In addition, client cooperation with the auditor is necessary, since the auditor experiences information asymmetry during the audit process: the client has more information about the company than the auditor does (Kleinman and Palmon, 2000; Kopp *et al.*, 2003). Evidence from the client is considered an important source and a good starting point for audit planning and the audit itself (Arens *et al.*, 2007; Kopp *et al.*, 2003); therefore, the auditor is dependent on client involvement and cooperation (Arel *et al.*, 2005; Kopp *et al.*, 2003; Rennie *et al.*, 2006). Client cooperation and management provided evidence have been shown to increase audit effectiveness (Comunale *et al.*, 2003).

The conflict over the auditor having a close working relationship with the client and remaining independent has created what Beattie *et al.* (2000) refer to as a paradox. The paradox is where regulators, who are concerned with issues of auditor independence, add complexity to the audit regulatory framework. This complexity then results in the client getting closer to the auditor to seek more advice. This paradox is apparent in the literature. The auditor needs the client to cooperate and work closely with the auditor, given information asymmetry; however, this closeness has given rise to concern over adequate auditor independence to assure an objective audit process (Beattie *et al.*, 2000; 2001; Kleinman *et al.*, 2000; 2001).

1.1.6 Summary of Audit research

The audit literature review presents auditor-client relationship research from different perspectives. Economic perspectives show the impact that the duration of the audit-client relationship has had on the auditor's level of independence and audit quality (Arel *et al.*, 2005; DeAngelo, 1981; George 2004; Iyer and Rama, 2004; Myers *et al.*, 2003) which produce conflicting results. In response to regulatory calls for mandatory rotation (George 2004), longer auditor tenure has not been shown to negatively influence audit quality (Arel *et al.*, 2005; Iyer and Rama, 2004).

The auditor-client relationship has also been studied from a negotiation perspective: how the client and auditor resolve issues related to financial statement technical issues (Beattie *et al.* 2000; 2001; 2004; Gibbens *et al.*, 2001; 2005; Iyer and Rama, 2004; Kleinman and Palmon 2000; 2001; 2003; Trotman *et al.*, 2005). The results of negotiation research have been conflicting. Some research found non-collaborative outcomes (Gibbens *et al.*, 2001; 2005; Trotman *et al.*, 2005), while other concludes collaborative outcomes between the auditor and the client (Beattie *et al.*, 2000; 2001; 2004; Kleinman and Palmon, 2000; 2001; 2003).

The Relational Marketing approach has been used to investigate the auditors perspective of their preferred relationship approach with their clients (Elbekali and Pilote, 2004; Pilote and Elbekali, 2004) and the antecedents of the audit-client's willingness to cooperate and continue with their audit firm (Ruyter and Wetzels, 1999). These studies stress the need for further evidence from the client on their relationship with their auditor. Better understanding the client's perspective on their relationship with their auditor is important for both audit practioners and audit academics, since the audit-client relationship is becoming more complex and requires increasing auditor-client interaction and client involvement (O'Sullivan, 2004; U.S. Chamber, 2006). The client perspective is also important due to reported increases in client dissatisfaction with their audit firm (Nixon, 2005).

Beattie *et al.* (2000) argue that most research into auditor-client relationships is abstract or indirect, which draws inferences from public company information due to the difficulty of gaining access to real life information (Beattie *et al.*, 2000; Dye, 1991). Kleinman and Palmon (2000) stress the need for further empirical research of the auditor-client relationship because the relationship is becoming more intensive and extensive. However, the challenge

in studying auditor-client relationships is determining the appropriate definitions and measures of relationship constructs and variables. Therefore, there is a need to draw on a field of study that has defined and operationalized relational variables, which is analyzed in the following section.

1.2 MARKETING REVIEW

Definitions of relationship constructs and the operational variables used to define these constructs have been extensively documented in the Marketing literature. Marketing scholars have defined the study of buyer-seller relationships as Relationship Marketing and we draw on this literature to establish a conceptual framework for the auditor-client relationship. According to Beattie *et al.* (2001), "...by augmenting the economic theory of auditor choice with insights from the marketing and psychology disciplines, a more complete understanding of auditor choice will be created" (pg 16). Therefore, the objective of this research will be to investigate the client's relationship preference with their auditor using a Relationship Marketing perspective and framework.

To accomplish this objective, we will reference Relationship Marketing literature. In the Relationship Marketing literature, buyer and seller characteristics are theoretically and empirically tested. Since economic theory, as well as the negotiation literature, have shown to be limited perspectives, Relationship Marketing has been proposed as a discipline that will help to better understand clients' relationship preferences (Beattie *et al.*, 2001).

1.2.1 Relationship Marketing

Relationship Marketing is a perspective that seeks to improve the understanding of how service and product providers, clients, and other parties relate with each other, which has an impact on business strategy (Gronroos, 2000). The Relational Approach (RA) is considered by marketing scholars to be at the opposing end of the Transactional Approach (TA) (Dwyer *et al.*, 1987; Macneil, 1974; 1978; 1980; Paulin *et al.*, 1997; 2000; Pels *et al.*, 2000). In the Relational Marketing literature, suppliers have been found to be either transactional or relational (Gronroos, 1994; 2000; Gummesson, 2002; Paulin *et al.*, 1997). However, other perspectives have shown that suppliers can be both transactional and relational depending on the needs of the customer (Coviello *et al.*, 1997; 2000; 2002; Pels *et al.*, 2000).

Unlike suppliers, clients are in either a relational mode or a transactional mode in a given marketing situation (Gronroos, 1991; 1997; 2000; Paulin *et al.*, 1997; 2000). There are Relationship Marketing studies that have defined and measured relationships between buyers and sellers where the TA and the RA are not mutually exclusive (Coviello *et al.*, 1997; 2000; 2002 and Pilote and Elbakkali, 2004); however, these studies are only from the supplier perspective. Since the objective of this study is the client perspective, we focus on the theory and models that define and measure Relationship Marketing constructs that include the buyer.

Buyer and seller relationships have been conceptualized as either more Relational (RA) or more Transactional (TA) based on their position on a continuum, where TA and RA are on opposing ends (Macneil, 1974; 1978). The TA and RA are further conceptualized and empirically tested showing that buyers and sellers are either more Transactional (TA) or more Relational (RA) based on where they are positioned on the TA-RA continuum (Dwyer *et al.*, 1987; Ferguson *et al.*, 2005; Fink *et al.*, 2007; Kaufmann and Dant 1992; Paulin *et al.*, 1997; 2000; Morgan and Hunt, 1994; Rokkan and Haugland, 2000). TA and RA are on opposite ends of a continuum, where the TA is defined by the theory of opportunism, and where the RA is defined as a win-win, plus sum game (Gummesson, 1994; 2002; Paulin, 1997).

One of the objectives of RA is to differentiate, strategically, a company by maximizing the relationship between the buyer and the seller (Gronroos, 1994; Gummesson, 2002; Paulin *et al.*, 1997). In addition, for the seller, the goal of RA is to get and keep customers; whereas, the main objective of TA is to gain customers, increase market share and maximize short-term customer profitability (Gronroos, 1994, 2000; Paulin *et al.*, 1997; Perrien and Ricard, 1995; Ricard, 1995). The RA allows the seller to better understand the customers needs; therefore, increasing cross-selling, increasing revenues, and reducing costs by better matching services with appropriate needs (Berry, 1987; Dwyer *et al.*, 1987; Paulin *et al.*, 1997; Pels *et al.*, 2000). The difference between the two relationship approaches (RA and TA) can be further explained as follows.

For both buyers and sellers, the RA is a relational exchange that reflects an ongoing process (Dwyer *et al.*, 1987; Morgan and Hunt 1994). It is a perspective based on interdependence

rather than independence of choice and cooperation rather than competition (Sheth and Parvatiyar, 1995). Cooperation is a key antecedent to a successful long-term relationship. Cooperation promotes Relationship Marketing success (Morgan and Hunt, 1994). Research has shown that factors such as interdependence, shared values, and trust increase client cooperation which results in the client's willingness to continue their relationship with the supplier (Morgan and Hunt, 1994; Ruyter and Wetzels, 1999). In the audit literature review, we showed the importance of client cooperation due to information asymmetry in favour of the client (Kopp *et al.*, 2003; Ruyter and Wezels, 1999). By knowing the client's relationship preference, the auditor could better determine levels of cooperation since higher cooperation is prevalent in a RA more so than in a TA (Morgan and Hunt, 1994).

Communication is also an important element in the RA, where the nature of communication is from individuals to individuals (Coviello *et al.*, 1997; 2002). Communication has been shown to increase levels of trust between exchange partners (Anderson and Narus, 1990; Morgan and Hunt, 1994). For communication to be effective for buyers, it needs to be meaningful and timely (Anderson and Narus, 1990; Morgan and Hunt, 1994).

In contrast to the RA, the TA is a discrete transaction approach that has a distinct beginning, short duration, and ends by the delivery of performance (Dwyer *et al.*, 1987; Morgan and Hunt, 1994). The TA is a perspective based on the premise that competition and self-interest results in an arm's length relationship (Morgan and Hunt, 1994). This approach is focused on the acquisition of new clients and increasing the number of transactions to increase short-term profits, disregarding the relationship with the client (Gronroos, 1991; 2000).

Gummesson (2002) and Gronroos (1994; 2000) present the RA and the TA on a relationship continuum where TA is the 0 point, and the opposite extreme on the continuum is the RA where the "...customer and a supplier are practically the same organization" (Gummesson, 2002, pg 17). At the 0 point, there is no relationship between the buyer and seller as it is the lowest price that connects the buyer and seller. The 0 point is theorized by micro-economic theory, where price is the only determining factor of a purchase. The 0 point can also contain a convenience factor which would put less emphasize on price (Gummesson, 2002). Different theory supports the TA and the RA.

1.2.2 Theoretical Support

The TA is based on Williamson's (1975) Transaction Cost Analysis (TCA) and the RA is explained by Macneil's (1980) Relational Theory of Contracts. Williamson's (1975) Transactional Cost Analysis (TCA) is based on classical contract law and assumes that exchange is strictly an economic transaction (Campbell, 2004). TCA assumes that individuals are rational, utility maximisers, opportunistic, and self interested. TCA also assumes that decisions are made with the objective of minimizing transaction costs.

Macneil's (1980) Relational Theory of Contracts is argued to be the theoretical framework which best explains the RA (Dwyer *et al.*, 1987; Paulin *et al.*, 1997; 2000). Dwyer *et al.* (1987) has been credited for bringing Macneil's (1980) theory into the Marketing literature (Paulin *et al.*, 1997). Paulin *et al.* (1997) study banking relationships drawing on Macneil's theory. Macneil's (1980) Relational Theory of Contract distinguishes a RA over a TA, where RA happens over time with an anticipated future. According to Macneil's (1980) Relational Exchange Theory, classical contract law is transactional and is not adequate to explain the exchange between two parties because it fails to consider the relational aspects of the exchange (Macneil, 1974; 1978; 1980; Paulin *et al.*, 1997). Macneil (1980) claims that contract law explains an exchange between two parties as being simply transactional and discrete, with no consideration for time (Macneil, 1974; 1978; 1980; Paulin *et al.*, 1997).

Relational contracts are considered by Macneil (1974; 1980) to be the opposite pole of transactional contracts and "...are characterized by whole person relations, relatively the opposite pole to transactional contracts and are characterized by relatively deep and extensive communications and significant elements of non-economic personal satisfaction" (Macneil, 1974, p. 723). According to Macneil's (1980) theory "...man is a self-sacrificing and social creature as well as selfish and opportunistic" (Paulin *et al.*, 1997, pg 2); therefore, exchange cannot be based on only rationality and utility maximization. Empirical studies deepen our understanding of the RA and TA constructs as explained in the following section.

1.2.3 Empirical Evidence

In the audit literature, Pilote and Elbakkali (2004) and Elbakkali and Pilote (2004) investigate the auditor (seller) relational preference based on theory from Relationship

Marketing, from the seller perspective. The results show that auditors prefer a more RA with their clients. In the Marketing literature, there are studies that conceptualize relational variables (Dwyer *et al.*, 1987; Macneil, 1974; 1978; 1980), and empirically test to see if buyers and sellers are more transactional or more relational (Coviello *et al.*, 1997; 2000; 2002; Ferguson *et al.*, 2005; Fink *et al.*, 2007; Kaufman and Dant, 1992; Paulin *et al.*, 1997; Paulin *et al.*, 2000; Rokkan *et al.*, 2003)

For example, multi-dimensional RA and TA variables were developed from a conceptual framework (Coviello *et al.*, 1997), and empirically tested (Coviello *et al.*, 2000; 2002). Coviello *et al.* (2000) found that both the TA and RA were relevant marketing approaches for both small and large service firms, while Coviello *et al.* (2002) found, after studying 308 firms, that suppliers from consumer and goods firms as well as service firms used a RA, TA, and mixed approach. Therefore, their study did not show that different types of firms practice more RA than others. They show that a hybrid (mixed TA and RA) approach was possible for sellers. Coviello *et al.* (2002) did not conduct their study to measure client relational preferences, and we maintain the argument that clients will prefer either more of a TA, or more of a RA preference as presented in the Relationship Marketing literature (Ferguson *et al.*, 2005; Gronroos, 1991; 1994; 1997; Paulin *et al.*, 1997; 2000; Pels *et al.*, 2000).

From a different perspective, Kaufmann and Dant (1992) were the first to operationalize Macneil's (1980) Relational Exchange Theory and empirically showed the operational reliability of the RA and TA constructs using a multidimensional measurement instrument applicable within different industries and from both buyers' and sellers' perspectives.

Contrary to other conceptual frameworks (Gronroos, 1991), a TA approach is evident in non-consumer goods firms (Coviello *et al.*, 2002). Coviello *et al.* (2002) study showed that one forth of business-to-business service firms showed a more TA. However, Coviello *et al.* (2002) conclude that their results support the observations by Day (1992) that trying to invest and build close relationships is neither necessary nor appropriate for every type of company or customer. Therefore, it is important to know the client's relationship perspective.

1.2.4 Client Perspective

It has been argued that the relationship approval strategy is an asymmetrical process, which depends mostly on the seller and not the client (Perrien and Ricard, 1995). However, others argue that even though the seller initiates the relationship approach the customer needs to accept the approach to assure its success. Based on the conceptual framework of Coviello *et al.* (1997), Pels *et al.* (2000) stress the need to understand the client's relationship perspective to assure a proper matching of the supplier's desired relationship approach with the customer. Elbakkali and Pilote (2004) also stress the need for client alignment with auditor relationship preferences to assure effective resource allocation.

The customer perspective is also stressed by Peppers and Rogers (2005), who claim that companies are too focused on short-term results and not on developing relationships with their customers. Customers, who were interviewed, regarding their relationships with suppliers, complained that many of the relationships were one-way without concern for the needs of the customer (Peppers and Rogers, 2005). These authors claim the problem is that suppliers still fail to make an effort to take the customer's point of view. Pepper and Rogers (2005) argue that understanding the customer's point of view could help deepen a relationship and help customers cooperate and even accept pricing that could otherwise be considered too high. Even though the client relationship perspective is important, in the Marketing literature there is very little empirical evidence measuring buyer-seller relationships, particularly from the consumer's point of view (Sorce and Edwards, 2004)

1.3 OVERVIEW

The Audit literature review has shown the importance of better understanding the behavioural relationship between the auditor and the client and the lack of direct empirical evidence of the client's preferred relationship approach. It is important to know the audit client's preferred relationship approach with their auditor so that the auditor could improve the management of their relationships with their clients.

For example, it is not always appropriate for a service supplier to develop a RA with customers that are not in a relational mode (Gronroos, 1994; 2000; Gummesson, 2002; Sheth and Parvatiyar, 2000). If customers are not in a relational mode, then it might be more

feasible for service providers to create a transactional marketing strategy (Gronroos, 1997; Pels *et al.*, 2000), since the RA consumes resources, such as personnel's time (Elbakkali and Pilote, 2004; Ganesan, 1994; Pels *et al.*, 2000; Pilote and Elbakkali, 2004; Rokkan *et al.*, 2003; Sheth and Parvatiyar, 2000). Therefore, it would be important for audit firms to know their clients' preferred relationship approach to avoid a mismatched strategy, resulting in a misallocation of resources or client dissatisfaction (Dwyer *et al.*, 1987; Elbakkali and Pilote 2004; Gummesson 2002; Pels *et al.*, 2000). Pels *et al.* (2000) give an example of two mismatches. The first example is a buyer who desires a relational approach based on a unique need yet the seller uses a transactional approach, resulting in customer dissatisfaction. The second example is where the seller implements a relational approach yet the buyer, based on a generic need structure, desires a transactional approach, resulting in a misallocation of resources, and increased costs (Pels *et al.*, 2000). Therefore, it is important for the auditor to know the preferred relationship approach of the client, for both customer satisfaction and effective resource allocation.

The Marketing literature review highlights the main components of two constructs that describe relationships between buyers and sellers: TA and RA. The marketing literature also provides us with empirical studies, based on sound conceptual frameworks with variables that define the TA and RA constructs. These frameworks have permitted researchers to determine if buyers and sellers are more relational or more transactional. Therefore, the objective of this research project is to empirically determine if the client's preferred relational approach with their auditor is more Relational (RA) or more Transactional (TA).

In the following chapter, we present a conceptual framework of the auditor-client relationship with the objective of differentiating it from traditional buyer-seller dyadic relationships as well as an explanation of the theory that will support our methodology.

CHAPTER II

CONCEPTUAL FRAMEWORK

2.1 PRINCIPLE HYPOTHESIS (H1)

2.1.1 Buyer-Seller Relationship

After an extensive review of the Relationship Marketing literature, to the best of our knowledge, most of the traditional buyer-seller relationships, studied in the academic marketing literature (Christopher *et al.*, 1991; Dwyer *et al.*, 1987; Gronroos, 1994; 1997; 2000; Gummesson, 1994; 2002; Heide and John, 1992; Kotler, 1992; Morgan and Hunt, 1994; Sheth and Parvatiyar, 1995; 2000) are unlike the audit-client relationship. Figure 2.1 best represents these traditional buyer-seller relationships.

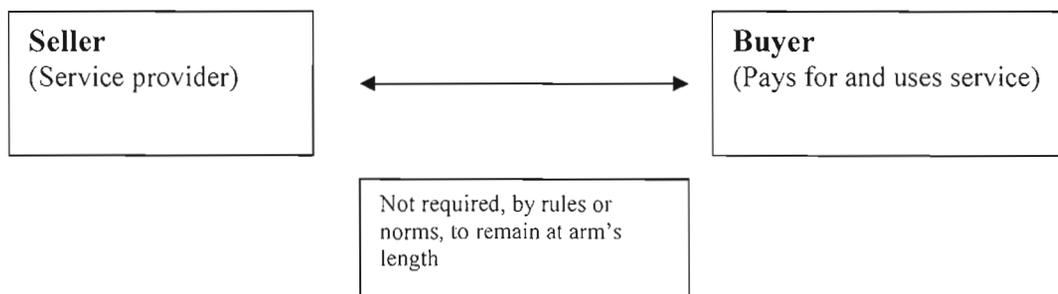


Figure 2.1 Buyer-seller dyadic relationships (Gummesson, 2002)

More precisely, classic market relationships are described as Business to Business (B-to-B) or Business to Customer (B-to-C), which are considered the classic dyad of marketing which is a two-party relationship (Gummesson, 2002). For example, the relationship is between

someone who sells something and someone who buys something, where the buyers and sellers are considered customers and suppliers who form relationships, two of which are described below:

In a few years Amazon.com became one of the world's largest bookstores. Founder Jeff Bezos used the opportunities inherent in the new infrastructural network of the Internet to reach globally, create an individual relationship with each customer, and effectively interact with customers. As a customer you can not only order books but also read book reviews from other readers and write your own reviews. Amazon is a learning network which registers which type of books you order and offers you new books within your profile (Gummesson, 2002 pg 6).

Instead of letting a large number of suppliers fight for contracts at lowest price, companies increasingly chose to develop intimate relationships with a limited number of suppliers....An extreme example is Procter & Gamble, the world's largest producer of packaged consumer goods, who has joined forces with Wal-Mart, the world's largest retailer. They have set up an information system which coordinates online the production and delivery of the goods with the sales in the stores (Gummesson, 2002 pg 6).

These examples show buyer-seller relationships, which are dyadic relationships where the buyer (payer) is the consumer or business user without the presence of a 3rd party user. The auditor-client relationship differs from the buyer-seller relationship as it includes paying clients who are not the intended user of the provided service. In addition, the auditor-client relationship is heavily regulated where arm's length independence, professional skepticism and objectivity are required with set norms (CICA, 2006), which is not the case in the dyadic buyer-seller relationships described above.

2.1.2 Audit-Client Relationship

As a foundation of our conceptual framework we present the audit-client relationship as it defined in the audit standards (CICA, 2006 5025.07) (presented in Figure 2.2), with the objective of differentiating it from the traditional buyer-seller relationship (presented in Figure 2.1).

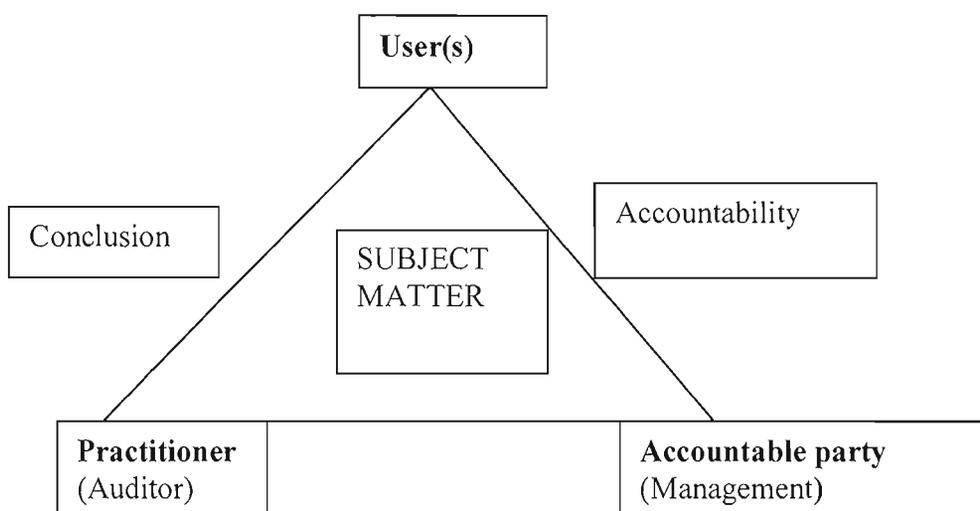


Figure 2.2 Three parties involved in an assurance engagement. (CICA, 2006 5025.07)

Referring to Figure 2.2, we base our definition of the participants in the auditor-client relationship on this CICA framework. The reason we use this framework as a basis for our conceptual framework is that the CICA framework is a standard that applies to all Canadian accounting practitioners, performing audit and review engagements, in private and public sectors (CICA, 2006, 5025.01). The Practitioner is the auditor who has the responsibility for the assurance engagement and the issue of the report on the subject matter (CICA, 2006; 5025.06). The Accountable party is Management (Client).

In this study, when we use the word Client we refer to the Accountable party and when we use the word Auditor we refer to the Practitioner as they are presented in this framework (CICA, 2006 5025.07). In addition to the Auditor and the Client, Figure 2.2 shows the presence of a User who is a 3rd party that could be shareholders, creditors, customers, the board of directors, the audit committee, and the legislators or regulators (CICA, 2006 5025.06). There is an accountability relationship between the Client and the User(s), where the Client is responsible to the User (s) (CICA, 2006 5025.04). It is the presence of the accountability to a third party User that differentiates the auditor-client relationship from other traditional buyer-seller relationships presented in Figure 2.1. The conclusion, in Figure

2.2, is defined as a written communication by the practitioner where a conclusion is expressed concerning a subject matter for which the accountable party is responsible (CICA, 2006 5025.03).

The existence of the 3rd party User could give rise to non-cooperative behaviour (Beattie *et al.*, 2001; Kleinman and Palmon, 2001). For example, the auditor could want to protect the 3rd party User and assure that financial information is accurate according to regulations and standards; whereas, the client's objective could be to achieve profit and assure the financial information is attractive to the 3rd party User. These conflicting objectives are referred to as "role strain" (Kleinman and Poleman, 2000; 2001). Therefore, given role strain, these authors ask the question: "Given all these outside interests: What motivates the parties to seek accommodation or conflict?" (Kleinman and Poleman, 2000 pg 25). In other words, given the multiple 3rd party Users, why would audit clients want to enter into a cooperative relationship (RA) with their auditor?

This research project encompasses with medium and high levels of assurance, referred to as an audit, or audit services (CICA, 2006 5025.01) and added-value advice defined in the audit standards as Derivative Communication, considered a by-product of the financial statement audit (CICA, 2006 5750.03). The scope of this research does not include other billable services offered by audit firms such as management consulting engagements or taxation engagements because these services fall outside of the conceptual framework of this research project⁵. Based on the triadic relationship presented in Figure 2.2 and discussed above, we present theory that could help explain the client's preferred relational approach, but first we discuss the auditor preference.

Auditors have been shown to prefer a RA with their clients (Elbakkali and Pilote, 2004; Pilote and Elbakkali, 2004). It is important to highlight that these authors investigated the seller (auditor) perspective. Their results are consistent with theoretical and empirical models

⁵ It is important to note that the definition of a RA includes multiple products or services offered from a supplier. However, this research is focused on the client relational preference for assurance services. The scope of the research is defined by the conceptual framework based on the model from the Audit manual (see Figure 2.2). This model shows that a 3rd party accountability relationship is a prerequisite for an assurance engagement. Therefore, other billable management services offered to management by auditors are not included in this conceptual framework since such engagements are not assurance engagements that involve an accountability relationship between the client-management and user (CICA 2006 5025.15).

found in the Relationship Marketing literature, which shows that sellers prefer a relational approach with their customers (Gronroos, 1994; 1997; 2000 Sheth and Parvatiyar, 1995; 2000). The benefits for service providers, such as auditors, to enter into a RA with a client are increased revenues, increased customer loyalty, and lower overall costs (Elbakkali and Pilote, 2004; Gronroos, 2000; Gummesson, 2002; Sheth and Parvitiyar, 2000). Our study, however, is focused on client preferences; and the benefits for a client, in either a RA or TA with their supplier, differs from the benefits for a supplier.

The RA will not necessarily benefit the client in the same way as the auditor (service provider). Research, in Relationship Marketing, shows that clients and organizational users are either transactional (TA) or relational (RA) in a specific exchange situation (Gronroos, 1991; 1997; Sheth and Parvitiyar, 1995). Therefore, to achieve the research objective of determining the client's preferred relational approach, we present theory to help explain why an audit client would prefer more of a RA, or TA with their auditor. It is important to highlight that the following theory discussed is to explain client behaviour and more precisely audit-client behaviour, not seller (auditor) behaviour.

2.1.3 Transactional Preference Theory

Berry (1995) argues that services with the following characteristics will benefit from a RA: personally important, variable in quality, and/or complex and high involvement (e.g. medical, banking, insurance and hairstyling). The reason for this is "the heterogeneity of labor-intensive services encourages customer loyalty when excellent service is experienced" (Sheth and Parvatiyar, 2000 pg 153). The example of an auto repair service is given where the client would prefer a RA with their auto repair service firm given the heterogeneity of the service. Also, Pels *et al.* (2000) propose a dynamic model which shows that clients each have a specific need structure and they will be in a relational mode or transactional mode based on how they perceive the service offering. If the service offering is perceived as unique, the client will prefer a relational approach with their service firm. If the service offering is perceived as generic, the client will prefer a transactional approach with their service firm (Pels *et al.*, 2000; Ravald and Gronroos, 1996). Therefore, to determine the client's relationship preference, it would be important to know how the audit client perceives the audit service, routine and generic, or unique and important.

2.1.3.1 Transaction Cost Analysis

In Williamson's (1975) frequently cited article, in which Transaction Cost Analysis (TCA) and Opportunism are introduced, the external auditor is considered an outsider and their motives are considered suspicious by the client management team. As a result, the auditor is expected to receive little cooperation (Abdel-Khalik, 1993; Williamson, 1975). Moreover, in the economic and audit literature, research has shown audit services to be perceived as a routine, commodity-like service, subject to downward price pressure: "...the audit has become more like a commodity with firms seeking, in many instances, the lowest price" (Schmidt & Sanborn, 1987 p.286).

2.1.3.2 Power theory (Resource Dependency)

Goldman and Barlev (G&B) (1974) argue that the client has power over the auditor, since the audit is an easily attainable commodity and perceived as not important, by the client. This perception of non-importance gives the client power. Two dimensions explain importance, in the G&B power model: 1) the nature of the problem solved and 2) the party benefiting from the service (Figure 2.3). This model is also referenced by Kleinman and Palmon (2001), Beattie *et al.* (2001), Nichols and Price (1976), Green (2006) and Iyer and Rama (2004).

Beneficiary	Problem Solved	
	Nonroutine	Routine
Paying clients	(1) Highest	(2) Medium
Others	(3) Low	(4) Lowest

Figure 2.3 The Amount of Power Wielded by Professionals Vis-a-Vis Paying Clients
(Goldman and Barlev, 1974 pg 336)

In their model, Goldman and Barlev (1974) explain how even though the auditor is asked time to time to handle non-routine problems, many audit issues are routine and do not benefit the paying party. Because of routine problems solved and the client not benefiting from the service, the audit is perceived by the client as not important, and the power of the relationship is asymmetric in favour of the client (Goldman and Barlev, 1974).

Marketing scholars have theorized that services that are not perceived important by the client and which are perceived as routine and commodity-like with little added value will result in the customer preferring more of a TA over a RA (Berry, 1995; Gronroos, 1995; 2000; Gummesson, 2001; Pels *et al.*, 2000; Sheth and Parvatiyar, 2000). Therefore, if the G&B (1974) model (Figure 2.3) and the theory of Williamson (1975) are assumed theoretical representations of the audit service, the audit client would prefer more of a TA over a RA, given that the audit service is considered not important and routine. However, the question whether or not the audit is perceived by clients as a routine, non-value added service can be further developed. Additional theory explains why an audit client could perceive the audit service as a valued-added, important service.

2.1.4 Relational Preference Theory

2.1.4.1 Demand for audit (agency theory)

Agency Theory provides a framework that explains the relationship between the agent (the client) and the principal (the 3rd party User). By better understanding the relationship between the client and the 3rd party User, we see how the auditor-client relationship is influenced, which could advance our understanding of the relationship preference of the audit client.

By referencing agency models such as the Agency Relationship, Rational Expectations and the Monitoring Hypothesis (Wallace, 1980), we first investigate who demands the audit and why the audit is demanded. The following paragraphs are based on Jensen and Meckling (1976) and Wallace (1980).

The Agency Relationship theory explains that agents (clients) and principles (owners) are assumed to maximize their utility, and the agents are assumed to not always act in the best interest of the principle. The principle can protect himself by adjusting the price paid for the

agent's services. For example, if the principle has to expend resources to collect accurate data, the principle will downwardly adjust the wage paid to the agent. Therefore, the agent has an interest in keeping costs of providing this information low. Also, the agent has an interest in providing the principle information that is considered favourable by the principle because this information is a reflection of the agent's performance. Given the importance of information provided to the principle by the agent, the Agency Relationship explains that the agent is the source of the audit (Jensen and Meckling, 1976; Wallace, 1980).

The Rational Expectations theory helps explain why audited financial information is demanded and by whom. This theory predicts that people rationally use all available information when making decisions. Rational Expectation explains that the principle will downwardly adjust the agent's salary by an amount estimated by the principle (the principle estimates the cost of agent activities that do not meet the principle's expectations). Given the ability to protect themselves, the principle will not demand an audit. However, the agent will want to protect themselves against lower wages and demand an audit. Therefore, Rational Expectation theory predicts that the agent and not the principle demands the audit⁶ (Jensen and Meckling, 1976; Wallace, 1980).

The Monitoring (Stewardship) Hypothesis explains that if the agent provides financial statements to the principle yet the principle does not believe the numbers are accurate he will downwardly adjust the agent's wage by the amount of the perceived loss. Therefore, the agent will need to provide the principle the assurance that the financial statements are accurate by engaging an independent audit (Jensen and Meckling, 1976; Wallace, 1980).

To summarize, the Agency Relationship explains that the agent is the source of auditing; the Rational Expectation theory explains that the agent demands the audit to protect against lower wages; and the Monitoring Hypothesis explains that the audit will be provided by independent auditors in order to provide the assurance of accuracy (Jensen and Meckling 1976; Wallace 1980). These three agency theories show how the independent audit could be perceived by the client as important, unique, and value-added for the client, contrary to the theoretical model of G&B (Figure 2.3) and Williamson's (1975) Transaction Cost Analysis

⁶ This is only true if there is a market for agents. When there is no market for agents there is no possibility to replace the agent. Therefore, the principal will demand the audit since the principal needs to keep the agent (Padilla 2003).

(TCA). In addition, it is stressed to use agency theory along with complementary social constructs (Eisenhardt, 1989). Therefore, we reference Relationship Marketing literature to investigate other theoretical explanations, in addition to agency theory, for audit value as perceived by the client.

2.1.4.2 Added-Value audit

In the Relationship Marketing literature, an added-value service is an important component of the relationship approach, which allows companies to differentiate themselves from the competition and sustain a competitive advantage (Gronroos, 1997). The value of the auditor beyond the core audit service is evident by the auditor being a source of support and advice for the client, resulting in cooperative efforts as clients increasingly rely on advice from their auditors (Beattie *et al.*, 2000).

Empirically, Beattie *et al.* (2000) found that companies desire, from their auditor, more than auditing services, such as guidance on accounting principles, advice on internal controls and general business advice. These authors also found that when auditors did not provide enough advice, they were replaced (Beattie *et al.*, 2000). This advice is considered in the “added-value audit”⁷ (Beattie *et al.*, 2000). These authors are careful to distinguish the added-value audit from other consulting services offered by an audit firm, such as management consulting and tax advice. The added-value audit advice comes from the knowledge gathered during the audit process, including compliance, a management letter on procedures, and informal general business advice (Beattie *et al.*, 2000). Beattie *et al.* (2000) stress the importance of distinguishing added-value advice from additional billable services such as tax services and consulting services, which are subject to certain recent restrictions such as Bill 198 (2002) in Canada and the Sarbanes Oxley Act (2002) in the United States.

Audit regulations recommend that the auditor’s main objective, when conducting an audit, is to provide an opinion on the financial statements taken as a whole (CICA 2006 5750.03).

⁷ “There is some confusion over the term ‘added-value’. Audit practitioners use it to mean audits that are performed in such a way that the findings can be interpreted and communicated to the client and form part of the business decision taking activity and add real value to the corporate entity (personal communication with Gerry Acher, senior partner in KPMG UK, Chair of the ICAEW Audit Faculty and formerly chair of KPMG’s world wide auditing committee). Some commentators have however, taken the term to mean consultancy-related services” (Beattie *et al.* 2000 pg 200).

However, while the auditor is conducting the audit, the auditor “may identify certain matters that may be of interest to management” (CICA 2006 5750.03). As mentioned above, this communication mentioned in paragraph 5750 is considered a by-product of the financial statement audit and is considered a *derivative communication* (CICA 2006 5750.03-05), which is not intended to be used by a third party (CICA 2006 5750.06). It is recommended that the auditor communicates matters that are found during the financial statement on a timely basis (CICA, 2006 5750.14).

The types of matters to be communicated with management are (CICA 2006 5750.01):

- Fraud (CICA, 2006 5135)
- Misstatements (CICA 2006 5136)
- Understanding the Entity (CICA 2006 5141)
- Assessed Risks (CICA, 2006 5143)
- Internal Controls (CICA, 2006 5220)

In addition, Arens *et al.* (2007) cite the CICA (2006 5135.95 5136.28 5405.13 and 5751), which requires the auditor to communicate certain matters to the client once the audit is complete. Moreover, even though they are not required to do so, auditors frequently give advice to clients to help improve their business performance (Arens *et al.*, 2007).

Eilifsen *et al.* (2001) describe value-added assurance, from the result of a field study, as additional information: a by-product of the audit and not as separate services. The field study showed that in 1997, 14.5 percent of the engagement time was related to assurance activities not directly related to verifying the financial statements, compared to 7.3 percent in 1996. Eilifsen *et al.* (2001) differentiate value-added services according to the traditional audit approach versus the “new” audit approach. The Value-Added Services, described in the “new” audit approach, includes a delivered business model, business risk analysis, a delivered expanded management letter, and feedback on processes (Eilifsen *et al.*, 2001).

The added-value audit, which is a by-product of the audit, yet not an additional billable service, is an important element of the RA (Gronroos, 1991; 1997; Ravald and Gronroos, 1996). In the TA, the customer sees value as a basic exchange of the core product or service for money (Gronroos, 1997; 2000); whereas, in the RA the role of the core product or service

is blurred and the additional services becomes important. In the RA, a service offering includes the core service along with additional services. These additional services are not billable and are considered value-added services (Gronroos, 1997; 2000). With the RA, the customer interface is broader and the supplier has the opportunity to offer customers value added services such as technology, information, knowledge, social, etc (Dawson, 2005; Gronroos, 1994). In addition, according to Sheth and Parvitiyar (2000) and Wilson (1995), value-added knowledge gained by a partner in a relationship may be the most important outcome of a RA.

To summarize, the value-added component of the audit has been shown to be important for the client (Beattie *et al.*, 2000), and the value-added information is a key component of the RA. Therefore, along with agency relationship theory, the added-value source of support and advice adds to the argument of why the audit would be perceived as a non-routine and important service by the audit client.

2.1.4.3 Relational theory

Additional relational theory demonstrates, from empirical and theoretical studies, why forming relationships, with service providers, results in more successful relationships for clients. From the Relationship Marketing literature, Social theory, developed from Exchange theory, explains that individuals need to build on their self interests with the maintenance of social relationships (Blau, 1964; Homans, 1961; Ring and Van de Ven, 1994).

Similarly, in Feminist Theory the “Ethics of Care” explains the importance of the relationship in business exchange. Instead of viewing business relationships as competitive and contract oriented, relationships are viewed as cooperative and “maternal”, where cooperation replaces competition in business exchange (Beauchamp and Bowie, 2004; Gilligan, 1993). Moreover, according to the ethics of care, business exchanges result in success when the exchange is governed by care, needs, and long-term attachment, instead of contracts or universal rules (Gilligan, 1983).

Corroborating Feminist Theory is Macneil’s (1980) Relational Contract Theory (Campbell, 2004; Paulin *et al.*, 1997). Based on Macneil’s (1980) Relational Contract Theory, research has shown how relationship success results when relational constructs are present (Morgan

and Hunt 1994; Paulin *et al.*, 1997). In addition, RA has been shown to result in exchange benefits such as trust, commitment and cooperation (Ruyter and Wetzels, 1999; Ganessan, 1994; Morgan and Hunt, 1994; Paulin *et al.*, 1997; Rokkan *et al.*, 2003). Therefore, the client will benefit from a more RA versus TA, which should help the client provide pertinent and accurate information to the owner (principle), or other 3rd party Users.

Auditor-client negotiations could also influence the client's preferred relational approach with their auditor. Based on the agency relationship presented above, audit clients should prefer that negotiations result in an integrative (win-win) solution, contrary to Gibbins *et al.* (2005) and in favour of Beattie *et al.* (2004). In the Relationship Marketing and Audit literature, one of the principle variables of the RA (as an antecedent and outcome), in empirical and theoretical studies, is *Cooperation* between two parties, which results in long term relationship success (Gummesson, 2002; Gronroos, 1997; Morgan and Hunt, 1994; Ruyter and Wetzels, 1999). For example, empirical studies by Morgan and Hunt (1994) and Ruyter and Wetzels (1999), using the Commitment-Trust model, showed that commitment and trust in a relationship lead to higher levels of cooperation, which lead to the willingness to continue the relationship between suppliers and customers. Ebdelhaq and Pilote (2004) empirically showed the importance of the cooperation variable for the auditor.

In the Relationship Marketing literature, negotiation and cooperation theory support the RA approach. According to well-documented negotiation theory, if one side sees the negotiation as a win-lose proposition, they will be determined to beat the other party in the negotiation (Fisher and Ury, 1991; Ury, 1993). In addition, cooperation theory shows that successful long-term relationships are not a zero-sum game, where there is a winner and a loser, but rather a non-zero sum game (win-win) (Axelrod, 1984; 1997). A win-lose (zero-sum) relationship is effective in a short-term relationship (finite game). However, cooperation games have shown that if one party loses while the other wins, the loser will retaliate in future negotiations and the winner will not continue to receive favourable treatment (Axelrod, 1984; Rokkan *et al.*, 2003). Therefore, to achieve a successful long-term relationship with the auditor, the client should prefer a RA with the auditor, which would result in auditors acting in the best interest of the client in the long term.

Further evidence that the client would prefer a more RA over TA could be determined by looking at the impact of power on an exchange between buyers and sellers. The G&B model (Figure 2.3) is a power model that shows that the audit client perceives the audit as not important so the balance of power is in the hands of the client, and therefore the auditor is dependent on the client. Relationship Marketing models, empirically tested, have shown that relationship success between buyers and sellers exists in the absence of power and the presence of commitment and trust (Morgan and Hunt, 1994; Ruyter and Wetzels, 1999). In addition, models in the retail sector have shown that when retailers perceive sellers as dependent on them, the retailer favours a short-term relationship instead of a long term committed relationship (Ganesan, 1994). Therefore, if the audit client uses their power to benefit their position and to achieve the auditor's acquiescence, then, "...the continuing exercise of power to gain acquiescence also destroys trust and commitment, which decreases cooperation and inhibits long-term success" (Morgan and Hunt, 1994, pg 33).

2.1.5 Principle Hypothesis Summary

We began this chapter by explaining how the auditor-client relationship differs from typical buyer-seller relationships, primarily due to the accountability to a third party user. The third party user creates potential "role strain" between the auditor and the client (Kleinman and Palmon, 2000) as the audit client and the auditor could have conflicting objectives with the client. In addition, given that the audit client is not the intended user of the audit, but rather the third party user, client non-cooperative behaviour could result (Beattie *et al.*, 2001). Therefore, the question we ask is: "why would an audit customer desire a relational approach with their audit firm?"

To answer this question we investigate the theory and empirical research that could help explain a relationship preference between the auditor and the client. The Power Model, based on Resource Dependency Theory and conceptualized by Goldman and Barlev (1974), shows how the audit client considers the audit service as not important resulting in an asymmetrical power relationship in favour of the client. In addition, Williamson (1975), based on Transaction Cost Analysis (TCA), argues that clients consider the auditor as an outsider, which does not encourage client cooperation.

Alternative theory, such as the Agency Relationship theory, shows that the audit is demanded by the client in order to provide information to the third party user. The client requires this information to be accurate and representative to assure the principle has faith in the information. Therefore, the client should prefer a relational approach (RA) with their auditor and be willing to cooperate so that the auditor will provide a favourable audit opinion (Wallace, 1980). Additional theory shows that the audit client desires additional information, which is included in the new value-added audit. The value-added audit is not billable consulting services but rather knowledge gathered during the audit that can help the client (Beattie *et al.*, 2000). This shared knowledge is an important component of the relational approach (RA).

Given the existence of conflicting theory, which could either describe the audit service as an important, value-added service, or as a non-value added commodity, we argue that there is more convincing theory leading towards the perception of the audit service as important and value-added. Therefore, if the client perceives the audit service as important and value-added, according to Relationship Marketing, the client would prefer a more relational approach (RA) than transactional approach (TA) with their auditor.

More precisely, contrary to the G&B model in the audit literature, and Williamson (1975) in the economic literature, the audit client, according to Agency theory, the added-value audit and Relational Theory, should prefer a more Relational Approach (RA) with their auditor. Therefore, we hypothesize the following:

H1: The audit client will prefer more a Relational Approach (RA) over a Transactional Approach (TA) with their financial auditor.

There are also personal characteristics that could affect the client's relationship. These characteristics are described below and presented as secondary hypotheses in our conceptual framework. We present three personal characteristics as secondary hypotheses and not part of the primary study because they are not justified by our main theoretical foundation. However, we do attempt to see if certain personal characteristics could influence the client's relational preference. If so, these influences could provide additional explanations.

There are several personal characteristics that could potentially influence an individual's relationship preference, and ideally we would like to provide more characteristics; however,

we are restricted by a limited amount of questions in our questionnaire. Our criterion for the choice of the following personal characteristics is a theoretical justification from both the marketing and accounting literature.

2.2 SECONDARY HYPOTHESES

2.2.1 Risk Aversion

Risk Aversion is defined as “the extent to which people feel threatened by ambiguous situations, and have created beliefs and institutions that try to avoid these” (Hofstede & Bond, 1984 p.419). Research has shown that risk aversion affects buyer’s decision-making (Bao *et al.*, 2003; Shrimp & Bearden, 1982). The expected losses for high risk-averse consumers are higher than for low risk-averse consumers. To lower the risk of purchasing a product or service of lower quality, high risk-averse buyers will buy a higher price brand (Bao *et al.*, 2003). Low price sensitivity is a RA characteristic (Gronroos, 1991; 1994; 2000; Paulin *et al.*, 1997).

Past research has shown that consumers that have high-risk aversion buy less over the telephone (Cox and Rich 1964) and less over the internet (Tan, 1999). These high-risk adverse consumers desire to go physically to the store to purchase as they have a desire for social contact, which helps them feel more secure and less risky. Clients that have a greater risk aversion have been found to have a greater interest in forming a cooperative relationship with their supplier (Payne *et al.*, 1995). In consumer behaviour theory, buying behaviour is motivated by the reduction of risk (Bauer, 1960; Taylor, 1974 cited by Sheth and Parvatiyar, 1995). The level of risk aversion is based on the uncertainty and magnitude of outcomes (Sheth and Parvatiyar, 1995). To reduce risk, consumers look for ways to increase their self-confidence regarding the purchase, and they become loyal to brands (Beatty & Smith, 1987; Cox, 1967; Dowling & Staelin, 1994; Howard, 1965; Locander & Hermann, 1979 cited by Sheth and Parvatiyar, 1995). Self-confidence regarding purchases has been empirically shown to increase as buyers establish on-going interactions with sellers (Sheth and Parvatiyar, 1995). In the Relationship Marketing literature, empirical results of buyers and sellers have shown that the buyers’ risk aversion is positively related with the buyer

engaging in a RA with the seller in the consumer markets (Sheth and Pavatiyar, 1995) and in mass markets (Bhattacharya *et al.*, 1995).

Research in accounting has shown that accounting managers with traits of high-risk aversion search out security and create greater budget slack (Waller, 1988; Young, 1985 cited by Blanchette, 2001). Therefore, clients that are risk-averse desire security and should want to reduce the risk related to their audit by forming a relational approach with their auditor. Therefore, I hypothesize the following:

H2: The more audit clients demonstrate risk aversion, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their financial auditor.

2.2.2 Ethics of Care

Moral reasoning should influence the audit client's relational preference, which has been theoretically modeled and empirically tested, from two different perspectives: Gilligan's (1993) model based on the ethics of care (Reiter, 1996; 1997) and Kohlberg's model based on the ethics of justice and rights (Beattie, 2001; Poneman and Gabhart, 1990). Both perspectives have been shown to measure levels of moral reasoning. The main difference, however, between the Kohlberg and Gilligan model is that Gilligan's (1993) model introduces a relationship perspective: the relationship between self and others (Reiter, 1996; 1997; Pratt *et al.*, 2004). More precisely, Gilligan's model introduces the individual's moral reasoning within a relationship context (Table 2.1).

Gilligan's model describes the importance of social cooperation in relationships based on a feminist theory referred to as the "ethics of care". The "ethics of care" describes character traits that are present in close personal relationships such as: sympathy, compassion, fidelity, love and friendship (Beauchamp and Bowie, 2004). The ethics of care is contrasted with Kohlberg's moral reasoning, which is based on justice and rights. Based on the ethics of care perspective, service-providers view their responsibilities to their clients, not in terms of contracts or universal rules, but rather in terms of care, needs, and long-term relationships (Beauchamp and Bowie, 2004). Business relationships are viewed as cooperative and materialistic and not only competitive, market-oriented, and contractual (Beauchamp and Bowie, 2004). In the Kohlberg model, as the individual moves from level 1 to level 3 they

move from self-interest towards universal principles (Poneman and Gabhart, 1990). Whereas, as the individual moves from level 1 to level 3, in the Gilligan (1993) model, they move from self-interest towards interest for self and others (Reiter, 1996). We show the differences between both models in Table 2.1.

Table 2.1
The Kohlberg-Gilligan differences

	<i>Kohlberg (Poneman and Gabhart, 1990)</i>	<i>Gilligan (Reiter, 1996; 1997)</i>
1 st Level	Individual places self-interest above society	Caring for self and ensuring survival
2 nd Level	Individual conforms to the rules of society	Care for others, self-sacrifice
3 rd Level	Individual conforms to universal moral principles	Interrelationship between self and others

Gilligan (1993) argued that since Kohlberg's three levels of moral development were developed using only male participants, it incorporates a traditional male bias. For example, Gilligan (1993) used Kohlberg's Heinz dilemma with the participation of two children, a boy and a girl. Based on Kohlberg's definition of moral reasoning, the girl's moral judgement was lower in moral maturity than the boy's (Gilligan, 1993). Gilligan (1993) argued that the girl named Amy did not see the dilemma as a math problem with humans, but rather a series of relationships that extend over time. Gilligan claimed that the girl did not have a lower moral reasoning than the boy but rather that the girl saw the world as a "world of relationships" (Gilligan, 1993, pg 30), and that because Kohlberg's stages of moral development are justice oriented they fail to account for a person's view of the world as a system of relationships (Gilligan, 1993).

Overall, Gilligan (1993) found that women scored lower on Kohlberg's model. Her explanation of these results was that males are oriented towards autonomy, objectivity and universal principles (ethics of rights); whereas, female subjects have a different voice: a voice about relationships (ethics of care) (Reiter, 1997).

Accounting studies that have included moral reasoning have mostly used the Kohlberg model (Beattie *et al.*, 2001; Poneman and Gabhart, 1990; Windsor and Ashkansy, 1995).

Yet, Reiter (1996; 1997) stresses the importance of using the care perspective in future accounting studies. She argues the care model is not better than the justice model, but rather that the models have different perspectives and the care model could offer new insight for ethics in accounting. Reiter (1996; 1997) argues that ethics education in accounting is too heavily based on individual rights and short-term dilemmas and could benefit from a relationship perspective. In addition, accounting studies could benefit from viewing professional judgement as set of embedded relationships rather than as a set on independent relationships (Reiter, 1997).

The ethics of care perspective could contribute to the accounting practice by contrasting the economic justice perspective, which is associated with individualistic rights (Reiter, 1997). Reiter (1996) is careful to point out that the Kohlberg and Gilligan models represent different perspectives, and that moral reasoning could be studied from either perspective, depending on the objective of the study.

As described in our literature review and conceptual framework, the objective of our study is to measure the relationship preference of the audit client. Our relationship perspective has been conceptualized using two relationship constructs: TA and RA, which could be described as opposite poles on a continuum (Coviello *et al.*, 1997; 2000; 2002; Paulin *et al.*, 1997; 2000; Pels *et al.*, 2000). RA is an approach that includes interdependence and cooperation; whereas, the TA is an approach that includes independence and competition (Sheth and Parvatiyar, 1995). In addition, RA includes communication between individuals which leads to trust (Anderson and Narus, 1990; Morgan and Hunt, 1994); whereas, the TA approach is based on the premise that competition and self-interests results in an arm's length relationship (Morgan and Hunt, 1994). Similarly, in the Gilligan (1993) model, as individuals moves from level 1 to level 3, they move from a concern for self (level 1) to a concern for an interrelationship between self and others (level 3) (Table 2.1). The move from level 1 to level 3 in the Gilligan (1993) model is similar to a move on the relationship continuum from TA (independent) to RA (interdependent). Therefore, given the relationship perspective of our study, the Gilligan model would be more appropriate than the Kohlberg model to measure moral reasoning.

Gilligan's (1993) ethic of care theory can be used to measure the moral reasoning of male as well as female participants. There should not be observed differences in empirical studies between men and women's moral reasoning using the Gilligan model (Reiter, 1996). The Ethics of Care Interview (ECI) was used in a longitudinal study of 32 adolescents aged from 16 to 20 years: 16 girls and 16 boys. There were no gender differences on the ECI for these adolescents (Pratt *et al.*, 2004). Other studies using the ECI found no gender differences among late adolescents and young adults in North America and Norway (Skoe *et al.*, 1998). For example, the ECI was used to study 144 Norwegian men and women, 72 women and 72 men, from 15 to 48 years old, where no differences between the sexes were observed (Skoe and Lippe, 2002). In addition, Vikan *et al.* (2005) used the ECI to study 120 students from Norway, 60 females and 60 males, and 60 students from Brazil, 30 females and 30 males. The participants in both groups were in their early twenties. The results of the study using the ECI showed no gender differences.

In comparison to the levels of ECI, the TA-RA continuum described by Macneil (1974; 1980) shows that moving from TA to RA is a transition from an individualistic, competitive approach, with little cooperation (TA), to a fully cooperative relationship where the focus is on the satisfaction of both parties (RA). As we move along the TA-RA continuum from TA towards RA we would expect higher levels of ethics of care. Therefore, we hypothesize the following:

H3: The more audit clients demonstrate ethics of care, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their financial auditor.

2.2.3 Locus of Control

Locus of control is a personality factor that represents an individual's belief about their ability to control their environment (Bernardi, 1997). Internal locus of control individuals believe their own behavior determines the consequences of their life. Whereas, external locus of control individuals believe that their behavior does not determine the consequences of their life, which they believe is determined by external factors such as others, luck, chance, fate, etc. (Rotter 1966). In the audit literature, Tsui & Gul (1996) found that auditors with internal locus of control were least likely to accede to unfair client requests. These

results are explained by the auditor with internal locus of control being more independent and who feels more personally responsible, therefore less likely to accommodate, but rather cooperate. Whereas, auditors who are externals would rely more on external factors, such as the client; therefore, the client will have an easier time convincing the auditor. Kleinman *et al.* (2003) look at locus of control in the auditor-client relationship. Internals and Externals are positioned on the opposite end of the continuum, and since internals are believed to control their own destiny, they should be more likely to choose a strategy that is collaborative. Externals should choose a strategy of avoidance or accommodation. Collaboration and cooperation are RA traits; whereas, avoidance or accommodation is a TA trait. Therefore, individuals that demonstrate internal locus of control characteristics should desire a more RA; whereas, individuals that are more external should desire a more TA.

Psychology research shows the relationship between cooperation behaviour and locus of control (Boone *et al.*, 1999). Boone *et al.* (1999) hypothesized that since cooperation depends on the actions of others, cooperative behaviour would be higher for individuals with a more external locus of control (Boone *et al.*, 1999). The only theory that was used to justify this hypothesis was based on studies investigating children's behaviour. The Boone *et al.* (1999) study presented results contrary to their hypothesis and cooperative behaviour was actually more prevalent for internal locus of control individuals in repeated games experiments. Boone *et al.* (1999) explain these contradictory results drawing on the prisoner's dilemma theory. In repeat games, cooperation is the winning strategy. Therefore, Boone *et al.* (1999) argue that internals are more apt than externals to learn the right strategy over time. This is explained by internals being more confident than externals that they can control the situation. In addition, internals would have more decision capabilities and therefore more control of their relationship with others. Therefore, internals can begin to cooperate, taking the risk that the other party will reciprocate (Boone *et al.*, 1999).

We showed in the audit literature and in the conceptual framework that in negotiations clients would desire a cooperative approach to assure the auditor will reciprocate and help them obtain a desired result. In addition, agency theory predicts that the client would want the audit to be favourable in order to receive a favourable performance evaluation from the principle. As we showed in the marketing literature review, cooperation is a characteristic of

RA. Drawing on the empirical results of Boone *et al.* (1999), along with the audit research, and the prisoner's dilemma theory, we hypothesize the following:

H4: *The more audit clients demonstrate internal locus of control, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their financial auditor.*

The following is a summary of the four hypotheses:

Principle hypothesis:

H1: *The audit client will prefer more a Relational Approach (RA) over a Transactional Approach (TA) with their financial auditor.*

Secondary hypothesis:

H2: *The more audit clients demonstrate risk aversion, the more they will prefer a Relational Approach (RA) over a Transactional approach (TA) with their financial auditor.*

H3: *The more audit clients demonstrate ethics of care, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their financial auditor.*

H4: *The more audit clients demonstrate internal locus of control, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their financial auditor.*

Based on the auditor-client relationship in Figure 2.2, as a foundation, our conceptual framework is represented by the following schema (Figure 2.4), which is the framework for the following Methodology chapter. We explain our conceptual framework as follows. The foundation is the three party triangle based on the auditing standard 5025.07 and presented in Figure 2.2. The focus of our study is the relationship between the client (bottom right hand side of the triangle) and the auditor (bottom left hand side of the triangle), from the client perspective. The users (top of the triangle) represent the 3rd parties, who are the ultimate users of the information certified by the auditors. The client-auditor relationship, at the bottom of the triangle, does not exist without the 3rd party. Therefore, to study a client-auditor relationship without incorporating the influence of the 3rd party would be a misrepresentation of the audit-client relationship. In fact, the presence of the 3rd party is why it is not clear whether or not the client would want a relational approach (RA) or

transactional approach (TA) with their auditor. The auditor certifies the financial information of the client for the benefit of the 3rd party user; this results in potential conflict referred to as “role strain” (Kleinman and Palmon, 2000).

We propose, in our model (Figure 2.4), that the client (as an agent) demands the audit to provide accurate, favorable, and low cost information to the third party user, based on Agency Theory (represented by the arrow going from the client to the user in Figure 2.4). Given the importance of assuring that the audit is favourable, and at a low cost, the client would be interested in cooperating and working with the auditor, in a relational mode (represented by the arrow going from the client to the auditor in Figure 2.4). This is justified by Relational Theory and the Added-Value audit. In addition to the theory that predicts the client’s relationship approach, personal characteristics have also been modeled as potential influencers of the client’s preference. Clients that demonstrate more risk aversion, more ethics of care, and more internal locus of control should have a preference for a more RA than a TA with their auditor.

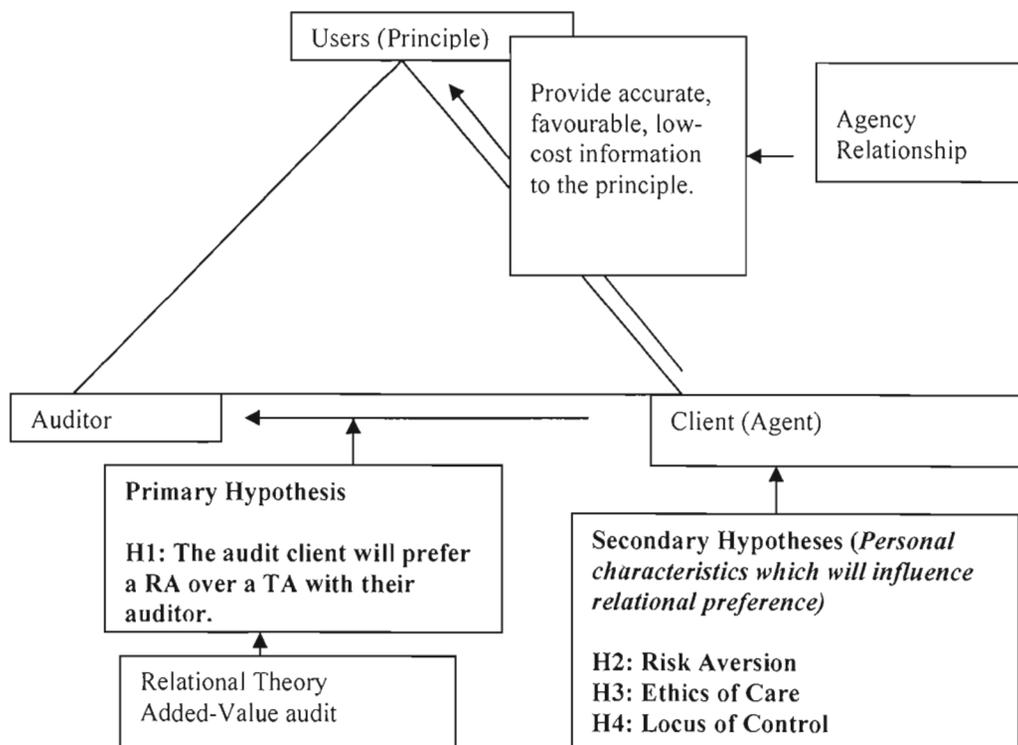


Figure 2.4 Conceptual model: The client’s preferred relationship approach

CHAPTER III

METHODOLOGY

In the following section, we present the methodology used to validate our research hypotheses. Included is our research design, measurement instruments for hypotheses 1-4, description of data collection, questionnaire description, and description of our participants.

3.1 RESEARCH DESIGN

Our objective is to determine the audit client's relationship preference when dealing with their audit firm (Hypothesis 1) and to investigate personal characteristics that could influence the client's relationship preference (Hypothesis 2-4). Therefore, two research designs, described below, have been chosen based on a research approach best able to answer our hypotheses.

The first research design is to test Hypothesis 1 and is designed as a survey, which is an appropriate method to test a hypothesis (Babbie and Benaquisto, 2002; Glatthorn and Joyner, 2005; Isaac and Michael, 1995; Rudestam and Newton, 2001; Yin, 2003). Surveys are primarily used in studies that include individuals as the units of analysis (Babbie and Benaquisto, 2002). In addition, a survey is the recommended design method to collect original data and for measuring attitudes and orientations (Babbie and Benaquisto, 2002; Isaac and Michael, 1995).

In addition, survey studies are used to describe the characteristics of existing phenomena without necessarily a concern for relationships between variables (Babbie and Benaquisto, 2002; Glatthorn and Joyner, 2005; Issac and Michael, 1995). Our survey study will test to see if the audit client's preferred marketing approach is more of a relational approach (RA),

versus a transactional approach (TA), with their audit firm. Other studies with similar research objectives in marketing (Coviello *et al.*, 2000; 2002), and auditing (Elbakkali and Pilote, 2004; Pilote and Elbakkali, 2004; Ruyter and Wetzels, 1999) also used a survey design. Furthermore, these studies successfully conceptually defined and empirically measured both relational (RA) and transactional (TA) constructs.

To test the data of H1, we use an interdependence technique since no variables are defined as dependent or independent (Hair *et al.*, 2006). Different interdependence techniques are suggested to analyse the structure of variables or subjects. If the structure of variables is analysed then Confirmatory Factor Analysis (CFA) is recommended (Hair *et al.*, 2006). Kaufmann and Dant (1992) conducted CFA of relational dimensions using LISREL. Reliability, unidimensionality, and validity results were used to summate scale-items in each relational dimension and then single measures for each of the seven dimensions were created (Kaufmann and Dant, 1992).

Since the objective of our study is to determine if audit clients prefer a more relational or a more transactional approach, using multiple items, we are interested in determining a single mean score. Therefore, we chose an interdependent technique, which helps determine the unidimensionality of our multiple items. CFA was considered, but it was decided to use Exploratory Factor Analysis (EFA) for the following reasons. CFA is used to confirm or reject preconceived theory. Past research has already used CFA to confirm that Kaufmann and Dant's (1992) items reliably represent Macneil's (1980) theoretical constructs (Fink *et al.*, 2007; Paulin *et al.*, 1997). In addition, other research used Kaufmann and Dant's (1992) items to arrive at a single mean relational score without using CFA (Rokkan and Hauglan, 2000). Therefore, since our objective is to arrive at a single mean score to determine if audit clients are more relational or more transactional, we use EFA with the objective of determining unidimensionality of Kaufmann and Dant's (1992) relational items based on the theoretical framework of Macneil (1980).

In addition, we conduct correlations to test Hypotheses 2-4, where the purpose is to determine if the variables used to describe the TA and RA constructs are influenced by certain personal characteristics (Table 3.5). This type of research is referred to as an explanatory research design, where the objective is to determine a relationship between

independent and dependent variables (Babbie and Benaquisto, 2002; Issac and Michael, 1995; Rudestam and Newton, 2001).

The following section describes the chosen measurement instruments to measure the variables and constructs in Hypothesis 1.

3.2 MEASUREMENT INSTRUMENT (HYPOTHESIS 1)

In this section, we explain our measures of the Transactional Approach (TA) and the Relational Approach (RA) constructs described in Hypothesis 1. Afterwards, we describe the measures of the variables described in Hypotheses 2-4.

Our 1st hypothesis, the main hypothesis, includes two constructs: RA and TA. For each construct we describe the dimensions (which are the concrete representations of the constructs) and the operationalization of each dimension. The constructs, dimensions, and reliability coefficients, for Hypothesis 1, are highlighted in Table 3.1, which are from Kaufmann and Dant (1992). In addition, the operational definition for each item is presented in our Relational Preference Questionnaire (Appendix C), which has been slightly modified to fit our research context. We explain the reasons for choosing the Kaufmann and Dant (1992) measurement instrument, and we present recent empirical studies that have referenced the same measures. In addition, we describe other empirical studies that also use multi-dimensional measures to operationalize RA and TA constructs.

The reason we have chosen to use a previously developed instrument to measure the RA and TA constructs in Hypothesis 1 is because it is generally recommended not to develop ones own measurement instrument unless the objective of the research project is to design an instrument tool, where the validity of the instrument is determined by the analysis of relationships with other variables (Rudestam and Newton, 2001).

Otherwise, when the objective of the study is to measure constructs, as it is in this study, it is recommended to use an existing instrument, when one exists (Rudestam and Newton, 2001; Roberts, 2004). However, when previously used instruments are used, certain criteria is important to determine the appropriateness to another study (Babbie and Benaquisto, 2002; Rudestam and Newton, 2001). These criteria are described as follows:

- Is the measure appropriate? It is important that the population that was used in the past empirical study is representative of the proposed population in our study. Also, the phenomenon that was conceptualized by the authors of the borrowed instrument needs to be similar to the conceptualisation of our phenomenon (Rudestam and Newton, 2001). Therefore, we need an instrument that has been tested on buyers (clients), preferably in the audit industry, which is our targeted population. Also, the theory that describes the relationship between buyers and sellers in past empirical studies would need to conceptualize the TA and RA constructs based on a similar theoretical framework as ours to assure there is consistency with our study.
- What are the measurement characteristics of the instrument? The reliability and validity of the instrument needs to be analysed. The reliability of a measure is the degree to which the measure is free from random error. The validity of a measure is the degree that the measure reflects the intended construct without the influence from other varying constructs (Hoyle *et al.*, 2002). We present the reliability and validity of our borrowed instrument. After we collect our data we determine our own reliability and validity measures for the data collected from our sample.

Based on the above-mentioned criteria, after an extensive literature review, we propose the measurement instrument used by Kaufmann and Dant (1992). To the best of our knowledge no other measurement instrument meets the above mentioned criteria. Since our objective is to determine the relationship approach of the client, which is the buyer of the audit service, Kaufmann and Dant (1992) is appropriate for two reasons: it is an instrument that applies to both buyers and sellers, and the measurement scales are not industry specific (Kaufmann and Dant, 1992; Paulin *et al.*, 1997).

Kaufmann and Dant (1992) surveyed a convenience sample of 106 sales and purchasing personnel chosen from executive seminars. Each participant completed a questionnaire by referencing one focal relationship across different industry sectors. Their study was not industry specific and their results supported the use of industry non-specific dimensions to

describe both buyer and seller relationships (Kaufmann and Dant, 1992; Paulin *et al.*, 1997). Therefore, the Kaufman and Dant (1992) measurement instrument is appropriate for our study, since it can apply to various industries such as the audit industry and apply to the client of audit services.

Also, Kaufmann and Dant's (1992) conceptual model contains similar theoretical reasoning to ours. Their study is based on the Social Theory developed by Macneil (1980) also known as the Relational Exchange Theory. Other relationship scholars used the Macneil framework for empirical studies and confirm that the analysis of transactional (TA) and relational (RA) norms, along a continuum, where RA and TA are opposite ends of the continuum, is the most appropriate way to measure business to business relationships, of either buyers or sellers (Fink *et al.*, 2007; Nevin *et al.*, 1993; Paulin *et al.*, 1997; 2000; 2006).

Relational Exchange Theory, as explained in our conceptual framework differentiates between a transactional approach (TA) and a relational approach (RA), where the transactional approach (TA) is at one end of a continuum and the relational approach (RA) is at the other end of the continuum (opposite poles). Therefore, a buyer or seller is either more RA or TA (Kaufman and Dant, 1988; 1992; Macneil, 1974; 1978; 1980). This is consistent with the theory that, for a particular marketing situation, a buyer is in either a relational mode or transactional mode (Gronroos, 1994; 1997). In addition, this theory supports the main objective of our study: to determine whether an audit buyer (client) is more relational (RA) or more transactional (TA), where our hypothesis suggests that audit clients will prefer a more RA rather than a TA with their auditor.

Before describing the Kaufmann and Dant (1992) measurement model, we will present and critic two other empirical studies from our literature review that also measures RA and TA constructs in the same study: Coviello *et al.* (2002) and Elbakkali and Pilote (2004). These studies are important as they measure the RA and TA constructs using similar multi-dimensions and scales as Kaufmann and Dant (1992). However, Coviello *et al.* (2002) and Elbakkali and Pilote (2004) investigate the RA and TA constructs from the supplier perspective. Therefore, we cannot directly use the measurement instruments from these two studies.

3.2.1 Elbekkali and Pilote (2004)

To measure the auditor's relational approach with their customers, Elbekkali and Pilote (2004) established a single and multi-dimensional (four dimensions) measure for the RA construct which was an improved measurement based on Ricard (1995) and a two-dimensional measure for the TA construct based on Perrier and Ricard (1995) (Figure 3.1).

RA Single Measure

RA Multidimensional measure

- Real length of the relationship
- Willingness to continue the relationship
 - Perspective from clients
 - Perspective from partners
- Quantity of multiple services
- Cooperation between partners and clients
 - Perspective from clients
 - Perspective from partners

TA Multidimensional measure

- Acquisition of new clients
- Profitability

Figure 3.1 TA and RA Dimensions (Elbekkali and Pilote, 2004)

Elbekkali and Pilote (2004) found that service suppliers of audit services preferred a more relational approach with their customers. Elbekkali and Pilote (2004) argued that both RA and TA are not mutually exclusive and that RA includes the TA. For example, RA includes the acquisition of new clients as well as the development and management of client relationships (Elbekkali and Pilote, 2004). Therefore, when RA activities, such as communication and cooperation, are not performed by the supplier it is assumed that RA is not the approach used. However, if TA activities are used, by suppliers, such as the

acquisition of new clients, it cannot be concluded that TA is the chosen approach because TA activities are included in the RA (not mutually exclusive) (Elbakkali and Pilote, 2004).

Therefore, conclusions on the audit partner's use of TA or RA were based on the high scale rating of dimensions of one relational approach and the low scale rating of the dimensions of the other relational approach (Elbakkali and Pilote, 2004). Their results showed that on average the partners chose the RA dimensions (6.31 on a scale of 8.00 for the single RA measure and 6.33 on a scale of 8.00 for the multidimensional measure of partner's implementation of RA). The TA results were mixed. The acquisition of new clients resulted in 5.79 on a scale of 8.00 and the measure of short-term profitability averaged 2.18 on a scale on 8.00. The authors conclude that even though the acquisition of new clients showed less support for a RA , the fact that RA and TA are not mutually exclusive and RA includes TA dimensions, such as the acquisition of new clients, the authors were able to conclude that audit partners implement more RA than TA with their clients (Elbakkali and Pilote, 2004). This measurement approach is based on a seller perspective and, therefore, not appropriate for our study (as discussed in the following section).

3.2.2 Coviello *et al.* (1997)

Similarly, Coviello *et al.* (1997) conceptually developed 7 Relational exchange dimensions which were operationalized by Coviello *et al.* (2002) explained in Table 3.1.:

Table 3.1
TA and RA Dimensions (Coviello *et al.*, 1997; 2002)

Dimension	Transactional Approach TA	Relational Approach RA
Focus	Economic transaction	Interactive relationships
Parties involved	A firm and buyers	Individual sellers and buyers
Communication	Firm to market	Individual with individuals
Contact	Arm's length	Cooperative
Duration	Discrete	Continuous
Fomality	Formal	Formal and informal
Balance of power	Active seller-passive buyer	Independent

In Coviello *et al.* (2002), suppliers were found to practice both transactional and relational approaches, which were termed a transactional/relational cluster. Similar to the findings of Elbakkali and Pilote (2004), business to business (B to B) service firms were found to be more relational. However, one-fourth of these firms practice the transactional approach and the authors concluded that the RA is not appropriate for all customers given the different needs of the customers as well as the resource requirement of the RA.

Elbakkali and Pilote (2004) and Coviello *et al.* (2002) demonstrate important empirical results of multi-dimensional measures of the RA and TA constructs. However, it is evident these two models are developed to capture the seller perspective. For example, in Elbakkali and Pilote (2004) (Figure 3.1) the TA variables are acquisition and profitability of clients. Even though these short term, economic dimensions would be similar for the buyer, we could not directly ask clients about client acquisition and profitability, as it would not be pertinent from a buyer perspective.

Similarly, in Coviello *et al.* (2002) (Table 3.1) the client would not be concerned about the seller's communication approach, whether it is firm to market or individual-to-individual. However, it would be pertinent to ask clients about the importance of a one to one personal relationship with their suppliers. Therefore, the fundamentals of the dimensions of these studies are pertinent but by using the Kaufmann and Dant (1992) we not only capture the multi-dimensional aspects of RA and TA, we also do so in a way that can be operationalized to capture the buyer perspective; in our case, audit clients.

3.2.3 Kaufmann and Dant (1992)

The dimensions that Kaufmann and Dant (1992) operationalize are derived from Macneil's (1980) Common Contract Norms. The recommended method to determine whether a relationship is more transactional (TA) versus more relational (RA) is to use Macneil's (1980) common contractual norms (Heide, 1994; Macneil, 1980; Kaufmann and Stern, 1988; Rokkan and Haugland, 2000), where TA and RA constructs are considered opposite poles on a continuum (Dwyer *et al.*, 1987; Fink *et al.*, 2007; Kaufmann and Dant, 1992; Macneil, 1974; 1978; 1980; Rokkan and Haugland, 2000). Nevin (1995) considers that this model

provides the most comprehensive conceptual context for understanding business to business relationships. The transactional exchange is explained by neoclassical economic theory and the relational exchange is explained by relational social theory (Rokkan and Hauglan, 2000). Transactional-Relational continuums, based on Macneil's social theory, were also used by Paulin *et al.* (1997; 2000) in their studies of commercial banking relationships. Kaufman and Dant (1992) is considered the first study that operationalizes the TA and RA constructs from both buyer and seller perspective and which is not industry specific, showing that it can apply to buyers across different industries. These contractual dimensions (Kaufmann and Dant, 1992) are described as follows.

3.2.4 Six Relational Dimensions

3.2.4.1 Relational focus

According to Macneil's (1980) Relational Contract Theory, an exchange relationship is described by a relationship continuum with the transactional approach and the relational approach being at opposing ends of the continuum. However, even very transactional exchanges have a relational component. In other words, there are no purely transactional exchanges, as even the most transactional exchanges are embedded in social relationships to a certain degree (Macneil, 1980). Therefore, the relationship continuum does not describe pure discreteness and pure relational exchanges but rather describes relationships that are more relational (RA) versus those relationships which are more transactional (Kaufmann and Dant, 1992; Macneil, 1978). A transactional (TA) focus emphasises the necessary economic conditions of the service or product exchanged, such as the price and quality of the service rendered. Whereas, the relational (RA) focus emphasizes the importance of the relationship with the exchange partner, beyond the economic elements of price and quality of service (Macneil, 1978). The focus of a relational exchange is difficult to monetize, as the future value of the relationship between two exchange partners is difficult to measure. The items used to measure the Relational Focus dimension as either more transactional (TA) or more relational (RA), where the audit client will be asked what is preferred, the importance of the exchange relationship (RA) or the individual transaction (TA) with their auditor.

3.2.4.2 Solidarity

Solidarity is the process by which the relationship is established and sustained: what holds the relationship together. In the TA, the relationship between exchange partners is held together mostly by external sources, and in the RA the relationship is held together by internal and external sources. In the TA, external sources hold the relationship together by arms-length bargaining and the legal enforcement of contracts (Kaufmann and Dant, 1992; Macneil, 1980). Whereas in the RA, internal sources, such as trust, cooperation, and interdependence are used to establish and sustain a relationship in the present as well as the future (Macneil, 1981). Items are used to measure the Solidarity construct as either more transactional (TA) or more relational (RA), where the audit client will be asked what is preferred, an arms length relationship or a cooperative relationship.

3.2.4.3 Mutuality

Mutuality is the dimension where each exchange partner perceives the evenness of the relationship. In the TA, since each transaction is a discrete event, the exchange partners monitor each transaction to assure they achieve a positive outcome. Whereas, in the RA there is less monitoring of each transaction, since the evenness of the relationship is perceived in future events, which is referred to as reciprocity⁸ (Kaufmann and Dant, 1992; Macneil, 1980). In a TA, the partners are looking for a positive winning outcome regardless of what the other partner gains, since the transaction is considered the last transaction. The exchange partner in a transactional exchange (TA) does not expect future reciprocity from the other exchange partner; therefore, they monitor the performance of each transaction as if it was the last without the future reciprocity of the other exchange partner (Kaufmann and Dant 1992).

When one partner tries to increase his share of the exchange-surplus and pushes for more, the other exchange partner will eventually quit, and this approach would be characterized as more transactional (TA). Whereas, an exchange partner that works towards evenness in the relationships would be characterized as more relational (RA) (Macneil, 1980).

⁸ Reciprocity is defined as "...simply stated as the principle of getting something back for something given"(Macneil, 1983, pg 347).

In this dimension the TA (discrete transaction) approach is where each individual transaction is monitored for its success and treated as if it was the last transaction. In the RA (relational exchange) the two parties expect reciprocity from the continued relationship.

The items are used to measure the Mutuality construct as either more transactional (TA) or more relational (RA), where the audit client will be asked what is preferred, that the performance of each transaction is monitored or that transactional monitoring is not necessary, as there will be opportunities in the future for reciprocity in the case of relationship unevenness: the principle of getting something back in return for something given (Macneil, 1983)

3.2.4.4 Flexibility

The Flexibility dimension is found in both the RA and TA approach, but for the TA the terms of flexibility are found outside the exchange partnership (Macneil, 1980). Macneil (1980) gives the following examples. Given a bank loan, where the conditions of the loan are stipulated on an external legal contract, in the event of a borrower's failure to pay, the conditions of the relationship of the two parties would be outlined in the external agreement. This is an example of a TA. In contrast, the RA would be a longer term, more relational approach between a lender and borrower. If changes were made during the relationship, such as financial difficulties, before referring to an external document, the two parties would already be engaged in two-way communication, advice, and consultation (Macneil, 1980). Modifications in the contract are expected and permitted in the RA; whereas, with the TA the conditions of the contract are not negotiable and changes result in new terms of agreement in a new contract. The items used to measure the Flexibility construct are either more transactional (TA) or more relational (RA). The audit client will be asked if they prefer changes to the terms of the agreement throughout the relationship or not.

3.2.4.5 Role integrity

The more transactional the relationship, the more the roles of each party are perceived and expected to be simplistic. The roles are mostly expected to deal with the buying and selling of the products or service in the exchange. However, in a RA the roles of each party are expected to be complex and multi-dimensional. In a RA the parties of the exchange

relationship are expected to be involved in activities beyond the mere buying and selling of the exchange product or service (Macneil, 1980).

The items used to measure the Role integrity construct as either more transactional (TA), or more relational (RA) determine if the role of the auditor includes activities that extend beyond the delivery of the audit service and involve a more multi-dimensional role; this would be descriptive of a RA. Whereas, if the audit client prefers that the role of the auditor be within the specific role of delivering the audit service, the relational construct would be the TA under the Role integrity dimension.

3.2.4.6 Restraint

This dimension reflects the degree to which each party exercises its power. In the TA, the parties exercise their rights and obligations. When the two parties in an exchange rely on the rights and obligations of their agreements they are in a TA. Whereas, in the RA, the parties voluntarily restrain their use of legitimate power (Macneil, 1974; 1980).

The items used to measure the Restraint construct, as either more transactional or more relational, are based on the exchange partner's use of power. The client's preference for the use of power as a means to get their own way, would describe a TA. Otherwise, if the audit client would prefer that the more powerful party voluntarily exercises control of their power then this would describe a RA.

3.2.5 Relational Preference measurement (RA and TA)

Based on the six relational dimensions, presented above, derived from Macneil's (1980) Relational Contract theory, Kaufmann and Dant (1992) developed multi-dimensional measures with the objective of being able to determine if relationships were more transactional (TA) or more relational (RA). A subset of questions (items) was developed for each dimension and alpha coefficients were calculated to determine the reliability of each dimension. The following Table 3.2 shows the six dimensions along with the questionnaire location of the corresponding questions (items), with a reliability coefficient for each dimension.

Table 3.2
TA and RA Dimensions (Kaufmann and Dant, 1992)

Dimension	TA	RA	Questions (Appendix C)	Cronbach Alpha
Relational focus	Individual transaction	Ongoing exchange	1,2,3,	0,71
Solidarity	Arm's length and legal	Trust and social	4,5,6,7,8,9	0,73
Restraint	Individual rights exercised	Power restrained	10,11	0,65
Role integrity	Clearly defined roles	Overlapping roles	12,13,14	0,78
Flexibility	Use of "Exit"	Renegotiation	15,16,17	0,62
Mutuality	Positive outcome from transactions	Positive outcome from relationship	18,19,20	0,72

Reliability coefficient alphas are recommended to be the first measure when assessing the quality of a measurement instrument (Churchill, 1979). The reliability coefficients in Kaufmann and Dant (1992) in Figure 3.2 are considered acceptable, ranging from .62 to .78. (Churchill, 1979). In addition, the construct validity for the Kaufmann and Dant (1992) is considered adequate, supported by face and content validity, as well as the above mentioned reliability coefficients. Reliability coefficients are considered indirect evidence of validity (Churchill, 1979; Kaufmann and Dant, 1992). Face validity is confirmed because the measurement dimensions are based on the theoretical framework proposed by Macneil (1980), considered a framework appropriate to describe the RA and TA between buyers and sellers (Dwyer *et al.*, 1987; Nevin, 1995; Paulin *et al.*, 1997; 2000).

The relational score of each dimension was determined by finding the mean of the item sums. Therefore, the different number of items per dimensions did not affect the weight of each dimension (Kaufmann and Dant, 1992). An important requirement for a summated scale is that each dimensional is unidimensional, meaning that the different items are correlated and, therefore, represent a single dimension (Hair *et al.*, 2006). Kaufmann and Dant (1992) measured the unidimensionality of their summated scales by assessing 1) internal and external consistency and 2) factor structure using LISREL. Unidimensionality is

confirmed as all item loadings, within each dimension, were significant (Kaufmann and Dant, 1992).

Recent empirical studies have also used the Kaufmann and Dant (1992) measurement model, which allowed the authors to measure the level of relationism: either more relational (RA) or more transactional (TA). Rokkan and Haugland (2000) measured transactional and relational exchange by the contractual norms developed by Kaufmann and Kant (1992). Each dimensional score was determined by the scale mean and each dimension was measured for a separate analysis of reliability. A final relational score was determined as the average score of the seven relational dimension scale means, with acceptable reliability (Rokkan and Haugland, 2000) (Table 3.3).

Table 3.3
Relational Dimensions (Rokkan and Haugland, 2000)

Dimension	Scale range	Scale range	Scale mean	Cronbach Alpha
Focus	1-7	1,38-6,13	3,20	0,80
Solidarity	1-7	1,25-7,00	2,58	0,83
Restraint of power	1-7	1,50-7,00	3,42	0,61
Role integrity	1-7	1,00-6,00	3,28	0,86
Conflict resolution	1-7	1,00-3,50	2,03	0,70
Flexibility	1-7	1,25-6,75	2,89	0,81
Mutuality	1-7	1,50-7,00	5,21	0,60
Relational results	1-7	1.99-5.17	3.23	0,65

Similar to Rokkan and Haugland (2000), Fink *et al.* (2007) based their study on Kaufmann and Dant (1992) and used 6 dimensions, and all measures were calculated using a five-point scale from strongly agree (5) to strongly disagree (1). Four items were used to measure each

dimension, so a total of 24 questions were used⁹. Means were calculated for each dimension, and a total single mean was used to determine a final relational score for a single measure of relationism with acceptable reliability measures, described in Table 3.4.

Table 3.4
Relational Dimensions (Fink *et al.*, 2007)

Relational Dimension	Conbach alpha
Relational focus (four items)	0,64
Restraint on power (four items)	0,68
Solidarity (four items)	0,68
Role integrity (four items)	0,61
Mutuality (four items)	0,70
Flexibility (four items)	0,77

Therefore, two empirical studies above show that the Kaufmann and Dant (1992) model have been empirically applied and the dimensions have proven to be a reliable measurement instrument. By using the Kaufmann and Dant (1992) model we will be able to determine audit clients that prefer a more relational approach (RA) versus clients that prefer a more transactional approach (TA). In addition, given the multi-item measures we will be able to determine, for each item, if the audit client is more relational or transactional.

Since the objective of our study is to measure the relational preference, we will slightly modify the questions and use the word *Prefer*, to capture the client preference. In Kaufmann and Dant (1992) they use the word *Expectation*: what the exchange partner expects; whereas, we want to measure the preference. In addition, we modify the questions to identify the auditor as the exchange partner in each question.

3.2.6 Visual Analogue scale (VAS)

Another modification we have made to Kaufmann and Dant (1992) is an improvement to the 7-point Likert Scale. The Likert Scale is considered useful in behavioural research because

⁹ In Fink *et al.* (2007) 24 questions were used, yet Kaufmann and Dant (1992) used 33 questions for the same 6 dimensions. We incorporated the 33 questions from Kaufmann and Dant (1992). However, during our pre-test we eliminated repetitive (non-value added) questions.

the main advantage of a summated scale is the greater variance obtained (Issac and Michael, 1995). Scales, such as the Likert scale, measure the intensity of a participant's attitude (Babbie and Benaquisto, 2002).

However, the disadvantage of Likert scales is response bias (over-rater or under-rater) (Issac and Michael, 1995). Moreover, the problem with questionnaires that use Likert scales for investigating an individual's subjective feelings is that the same word in a questionnaire can have different meanings for different people; these were the findings in psychiatry studies (Kertzman *et al.*, 2002; 2004). A proposed solution has been to use a Visual Analogue Scale (VAS) (Kertzman *et al.*, 2004). The VAS is a visual scaling method of assessment that is intended to overcome the problems associated with responding to subjective questions (Kertzman *et al.*, 2004). It was introduced by Hayes and Paterson (1921) and Freyd (1923) cited by Kertzman *et al.* (2004) and is often used in psychological research that investigates subjective states. The VAS is used in psychiatry to measure depression where the patient is asked to indicate their mood on a 10 cm line with its boundaries clearly defined as the extremes of the mood (Kertzman *et al.*, 2004). Therefore, the improvement of the VAS versus the Likert Scale is to achieve maximum variance.

Similar studies in audit (Elbekkali, 1999; Elbekkali and Pilote, 2004; Pilote and Elbekkali, 2004) measured auditors' relational preference by basing their measurement of RA and TA on Ricard's (1995) measures. However, the scale was modified by using a Visual Analogue Scale (VAS) instead of a Likert scale. A scale with the length of 8 cm was used, in the form of a line with opposing ends. The respondent was asked to place an X on the part of the continuum that best represented their answer, and the respondents answer was reported in centimetres (Figure 3.2).

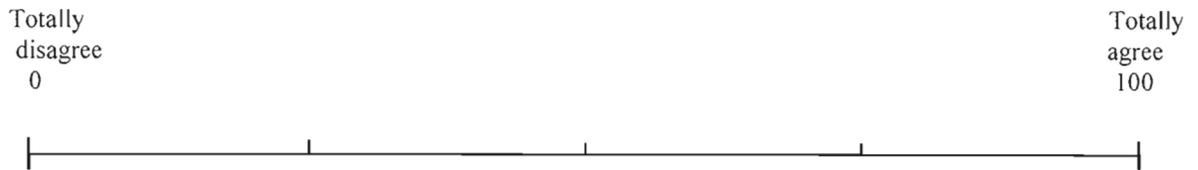


Figure 3.2 Visual Analogue Scale (Elbekkali, 1999)

Therefore, we propose an improvement of the Likert scale by increasing from greater variance (Likert) to maximum variance (VAS), by giving the respondent the option to respond using a maximum response of either Totally disagree or Totally agree. The word Totally assures the respondent would not have an answer that exceeds the limits of the scale.

3.2.7 Measurement modifications

To summarize our modifications, our measurement model will be modified to capture the client perspective, and we will seek the client's preference and not their expectation. It is considered acceptable to modify questions as many current measurement instruments in use are borrowed and modified (Hoyle *et al.*, 2002; Rudestam and Newton, 2001). Our modifications to the original model should not affect the reliability coefficients and validity mentioned above. It will, however, be important to pre-test our questionnaire and determine our own reliability and validity measures once data is collected from our specific population. Our questionnaire is included in Appendix C, which includes the original questions from Kaufmann and Dant (1992) with our above mentioned modifications.

3.2.8 Response bias

Order bias and Social Desirability Bias (SDB) was considered before constructing our Questionnaire. The order of questionnaires has been shown to affect results; however, the impact of the order of questions has not been consistent. For example, less educated respondents were more influenced by the order of questions than the more educated respondents (Babbie and Benaquisto, 2002). In addition, it was found that the order of questions has little impact on response effects for sexual-behaviour questions (Bradburn *et al.*, 1979). Attempts to randomize the order questions have had very little impact on the

effect of responses, and a random order is thought to be chaotic and confusing for respondents (Babbie and Benaquisto, 2002). Moreover, it has been stressed to caution against putting questions regarding one subject at the beginning and another subject latter in the questionnaire, as the first part of the questionnaire will impact the second part (Babbie and Benaquisto, 2002). Therefore, our questions in our questionnaire (Appendix C) did not follow any particular order, but rather were randomly classified, similar to Kaufmann and Dant (1992). In addition, there was no discussion of Order Bias in Kaufmann and Dant (1992).

We also considered the possibility of social desirability bias (SDB). SDB occurs when respondents over-report socially desirable behaviour and under-report socially undesirable behaviour. Respondents may be biased to respond in a way that conveys a favourable impression of themselves or their reference group (Rubbin and Babbie, 2007). Socially sensitive questions create SDB in participants' responses, which are considered a systematic response error (Hoyle *et al.*, 2002). Socially desirable responses are assumed a function of two factors: the individual need for approval as well as the demands of a particular situation (Nancarrow and Brace, 2000). Interview studies that fail to minimize SDB effects run the risk of inaccurate theoretical or practical conclusions, and threaten construct validity (Jo, 2000). Therefore, it is important to control for SDB in our study.

Other similar relational studies such as Coviello *et al.* (2002), Elbakkali and Pilote (2004), Fink *et al.* (2007) and Kaufmann and Dant (1992), did not control for SDB because they collected their data with self-administered questionnaires. A self-administered questionnaire is considered the most widely used method to reduce SDB (Bradburn *et al.*, 2004). For example, Blanchette (2001) measured individuals' ethical evaluations by asking participants if they had created or intended to create budget slack. The method used was a self-administered questionnaire survey. A face-to-face interview method was also used. The results in Blanchette's (2001) interview study showed that 75% of the participants confirm that they never had or intended to create budget slack. However, the results of the self-administered questionnaire survey in Blanchette (2001) showed opposite results: most of the managers had created slack or intended to create slack. With these opposing results the author confirmed that SDB was absent in the self-administered questionnaire (Blanchette

2001). Therefore, we consider that our use of a mailed self-administered questionnaire will help us control for SDB.

The following is an explanation of how we measure the variables used to test Hypotheses 2-4.

3.3 MEASUREMENT OF HYPOTHESES 2-4

In Table 3.5, we describe the variables that we use to measure the personal characteristics constructs for Hypothesis 2-4. In addition, we reference various empirical studies that have operationalized variables that measure these constructs. Personal characteristics are hypothesized to influence the audit client's relational preference as discussed in the previous Conceptual Framework chapter. The following is a brief description of the operational definitions of the variables, Risk Aversion, Ethics of Care, and Locus of Control.

3.3.1 Risk Aversion

Risk Aversion is measured using a questionnaire used by Judge (1999) and Blanchette (2001) and based on the Slovic (1972) scale (Table 3.5-Hypothesis 2). A questionnaire with 8 statements is scaled from 0-100 (Appendix D) (0-1585 for measurement purposes). On the 0-1585 scale, Totally disagree scores 0 and Totally agree scores 1585 points where scores that approach 0 indicate low risk aversion; whereas, a score that approaches 1585 represents a high risk aversion.

3.3.2 Ethics of Care

Gilligan's Ethic of Care model has been operationalized by Skoe's Ethic of Care Interview (ECI) (Skoe and Lippe, 2002) developed by Skoe (1993) cited by Skoe and Lippe (2002). Similar to the Heinz dilemma developed by Kohlberg (Gilligan, 1983), the ECI consists of one real life dilemma and four standard dilemmas administered using structured interviews. However, since we are conducting a survey study and not an interview study, we use the only paper and pencil instrument designed to measure the ethics of care: the Measure of Moral Orientation (MMO) (Liddell, 1990). The Ethics of Care is measured by the Moral Orientation, using a 6-item self-description questionnaire and the analysis of moral

dilemmas. Given the length of our questionnaire, we use only the 6-items to measure the participant's Ethics of Care (Appendix E¹⁰). We did not consider that by eliminating the moral dilemma we would weaken our measure of Ethics of Care since the 6-item scale has been shown to correlate significantly with the overall Ethics of Care measure (Liddell, 1998) (reliability and validity of the measure also confirms the appropriateness of the six-item scale, further discussed in our Preliminary Data Analysis). Similar to past studies of the Ethics of Care variable, we use a scale to measure the strength of the Ethics of Care (Liddell and Davis, 1996; Liddell, 1990; Liddell *et al.*, 1992). However, we use a Visual Analogue Scale instead of the Likert Scale for the same advantages as explained for the measure of our Relational Preference variable. The values of 0 and 100 are indicated on each end of the scale; however, for our measurement purposes, each line is measured from 0-1585 units, similar to the Relational Preference measure. The greater the audit client demonstrates Ethics of Care, the more they should prefer a RA with their auditor (Table 3.5-Hypothesis 3).

3.3.3 Locus of Control

The Locus of Control is a personality factor that represents an individual's belief about their ability to control their environment (Bernardi, 1997) (Table 3.5-Hypothesis 4). The Internal Locus of Control is measured using the Social Reaction Inventory (Rotter, 1966) adapted and used by Blanchette (2001) (Appendix F). The questionnaire includes 17 questions but only 14 are pertinent as 3 are questions of diversion. The unit of measure is based on 0-14 scale with individuals scoring close to 14 are considered to have an external locus of control while those that score close to 0 are characterized as having an internal locus of control (Blanchette, 2001).

¹⁰ 12 items are actually in the questionnaire, because 6 justice items were included, in order to determine discriminate validity.

Table 3.5
Operational measures of research variables for Hypotheses 2-4

Hypothesis	Constructs	Variables	Operational Definitions (how to measure the variable)	Unit of Measure	References for theoretical and/or empirical justification
2) The greater the audit clients' risk aversion the more they will prefer a RA over TA with their audit firm	Personal characteristic	Risk Aversion	Slovic scale (1972)	0-1585	Bao <i>et al.</i> (2003); Blanchette (2001); Hofstede and Bond (1984); Judge <i>et al.</i> (1999); Shrimp and Bearden (1982)
3) The higher the audit clients' ethics of care the more they will prefer a RA over TA with their audit firm	Personal characteristic	Ethics of Care	MMO	0-1585	Liddell 1990
4) The more audit clients demonstrate internal locus of control the more they prefer a RA over TA with their audit firm	Personal characteristic	Locus of Control	Social Reaction Inventory (Rotter 1966)	0-14	Bernardi (1997); Blanchette (2001); Boone de Brabander (1997); Rotter (1996); Tsui and Gul (1996)

3.4 DATA COLLECTION

A questionnaire can be administered by face-to-face interviews or questionnaires can be sent by mail. Both methods offer advantages and disadvantages. The advantages of the mail survey are, inexpensive, wide-ranging, self-administering, and anonymous (Hoyle *et al.*, 2002; Isaac and Michael, 1995). Moreover, the mail survey avoids potential interviewer bias (Hoyle *et al.* 2002). However, the disadvantages of the mail survey are low response rates (resulting in possible non-response bias), no assurance the questions were understood, and no assurance the addressee was the one who answered (Hoyle *et al.*, 2002; Isaac and Michael

1995). The advantages of the face-to-face interview are higher response rates than mail surveys (80% to 85%). In addition, the presence of an interviewer decreases the “no answers”, helps with confusing questions, and can observe respondents and the environment, as well as ask questions (Babbie and Benaquisto, 2002; Hoyle *et al.*, 2002). After considering the advantages and disadvantages of face-to-face interviews and mail survey, we chose a mail survey as our main method for our data collection. The following section describes our questionnaire and pretests.

3.5 PARTICIPANTS

The objective of this study is to obtain information from audit clients about their relationship preference with their auditor. The participant of our study is the client of audit services and is asked questions regarding different aspects of their relationship with their auditor. Therefore, the participant is an individual who is an audit client, responsible for the management of the auditor relationship at the client company, so they can answer questions regarding different aspects of their relationship with their auditor. The definition of our participants is consistent with our conceptual framework, where the audit client is defined as the Accountable party who is referred to as Management (CICA, 2006, 5025.06).

To determine the responsibility for the auditor relationship, we determine the member of management who has the responsibilities on the management of the auditor relationship. Beattie *et al.* (2001) studied auditor-client relationships and defined the audit client as simply the finance director (FD), yet do not define their responsibilities. Moreover, Gibbens *et al.* (2005) studied auditor-client negotiations and defined audit clients as the CFO, which were defined as the “...managers responsible for the financial statements used by markets and others...” (Gibbens *et al.*, 2005 pg 387). For the purpose of our study, we do not define the audit client using a specific title since titles in companies can vary and do not accurately define job responsibilities consistently among companies. For example, a controller in one company could be the top financial person, ultimately responsible for the relationship with the auditor; whereas, in other companies the same responsibilities could be carried out by a CFO or Director of Finance. Therefore, if we limit our study to individual titles we could exclude individuals that would have the appropriate responsibility for our study. Therefore,

we will define our participants by their level of responsibility, which could also include the owner of the company.

Similarly, Blanchette (2001) characterized her participants based on responsibilities and not job titles. She surveyed financial professionals with the objective of determining the relationship between the level of moral reasoning and the propensity to create budget slacking. Therefore, the participants needed to meet two specific characteristics: the participation in the budget process and the responsibility of a budget. Elbekkali and Pilote (2004) also used characteristics to determine their sample participants: partner and responsibility for managing audit clients' portfolios.

Given our need for specific characteristics, a random sample approach is inappropriate (Blanchette, 2001; Elbekkali and Pilote, 2004). A nonprobability sampling method, referred to as purposive sampling is more appropriate (Babbie and Benaquisto, 2001, Hoyle and Harris, 2002). Purposeful sampling has been used by other similar studies in accounting (Elbekkali and Pilote, 2004; Pilote and Elbekkali, 2004) and in Marketing (Coviello *et al.*, 2000; 2002).

The most appropriate sampling size is based on statistical analysis as well as convenience given our need for participants that meet required criteria (Babbie and Benaquisto, 2001; Patton, 2002). Similar studies (Blanchette, 2001; Elbekkali, 1999) based their sample size on Hair *et al.* (1995) who determine an appropriate sample size between a ratio of 10 to 20 times the independent variables.

The first part of this research project does not include independent variables since the purpose is not to determine relationships between variables. The second part our research consists of 3 independent variables (Locus of Control, Ethics of Care and Risk Aversion). These three variables will be correlated with RA and TA variables to determine a relationship. However, the three variables are not included in the same model, but rather studied individually. Therefore, according to Hair *et al.* (1995), the minimum required number of observations for regression analysis is 10 ($10 * 1$ independent variable) with a maximum being 20 ($20 * 1$ independent variable).

The criteria for participants and the type of company, based on the research question, research objective and conceptual framework of our study, are described as follows:

- Participants in this study are from Private Companies. Chaney *et al.* (2004) chose private firms for their sample for a few reasons. Firstly, private firms have different demand-and-supply functions for audits compared to publicly listed companies because they are not forced by regulations to produce audited statements (Chaney *et al.*, 2004). Given that public companies must produce audited statements due to the required regulation, clients do not value the audit since they do not have a buying choice (Abdel-Khalik, 1993). In public companies the audit committee chooses the auditor; therefore, it would be difficult to establish the dyadic relationship (unit of analysis) between two individuals in a public company. Therefore, since the public company has a forced audit and the decision of the firm is the audit committee, it is more feasible to only retain private companies in our study.
- It has been suggested that audited accounting information is more important for management performance evaluation in private firms rather than public firms, given the lack of market measures of firm value (Chaney *et al.*, 2004).
- Even though in private firms owners and managers are closer than in public firms, there are still agency relationships because management still needs to be monitored by owners (Ang *et al.*, 2000; Chaney *et al.*, 2004). Iyer and Rama (2004) also surveyed private companies to investigate clients' ability to persuade the auditor to accept their position, which was related to auditor tenure. Even though most auditor-tenure discussions included publicly traded companies, Iyer and Rama (2004) say that auditors and regulators believe that regulations similar to those imposed on public companies will be imposed on private companies in the future¹¹.
- Participants need to be from companies large enough for there to be a separation between ownership and management to where there is an agency relationship. The private company cannot be a firm where the owner owns and manages 100% of the company. There needs to be some separation of the owner and manager for our conceptual framework to apply. Therefore, there must not be zero agency costs. However, an agency relationship between management and ownership, along with

¹¹ We have no documented evidence or reason to believe that there would be a difference in a preferred relationship approach with a private versus public company. An important reason for our choice of private companies is that we would not be including the audit committee in the decision process, thus allowing us to study the individual audit client, ultimately responsible for the management of auditors.

agency costs does not require a large company. In the original agency cost theory by Jensen and Meckling (1976), there is zero agency cost when the firm is owned solely by a single owner-manager (Ang *et al.*, 2000). In Jensen and Meckling (1976) at one extreme are companies where managers own 100% of the company, therefore have zero agency costs. At the other extreme are companies where owners pay managers and the managers own no equity in the company. In between these two extremes, there are firms where the managers own some but not all of the firm equity. Therefore, in the firms between the two extremes there are agency costs (Ang *et al.*, 2000; Jensen and Meckling, 1976). Therefore, even a small company, where a single owner owns 100% of the equity, but who hires an outside manager, will still incur agency costs for the very reason that an outside manager is hired. The outside manager is hired because the owner cannot manage all the financial operations. The single owner, due to time, or financial knowledge cannot fully understand the financial operations of the company, therefore must incur monitoring costs (Ang *et al.*, 2000; Jensen and Meckling, 1976). Therefore, in our sample we include private companies where there is an owner or owners that do not own and manage 100% of the company's equity to assure that there exists an agency relationship between the manager (agent) and owner (principle).

- Participants must be a member of the client-management team that has the hierarchical position that provides the responsibility to manage the auditor relationship. To assure that the unit of analysis corresponds with our conceptual framework the client will be the accountable party who is part of management and has an accountability relationship with another party as defined by the CICA (2006 5025.04-.06)

The following is a summary of the criteria for an acceptable participant for our study. The individual participant needs to be:

- Member of a privately held non-listed company.
- Member of a company where the owner does not own and manage 100% of the company equity.

- Member of a company that has an audit engagement (medium or high level of assurance) with an audit firm.
- Member of management.
- Responsible for the management of the auditor relationship.

3.6 SAMPLE SIZE AND DATA LISTS

To determine the number of appropriate participants (sample size) it is necessary to consider the analysis of our hypotheses. Our study includes 4 hypotheses, 1 main hypothesis and 3 secondary hypotheses. For the main hypothesis we test for unidimensionality by Factor Analysis, then we use Paired-Samples T-Tests to determine if the audit client is more relational (RA) or more transactional (TA), in respect to the continuum midpoint. For the 3 secondary hypotheses, we conduct simple correlation analysis to determine relationships between the variables of the secondary hypothesis with the variables of the main hypothesis. Therefore, we perform 3 analyses:

1. Factor Analysis.
2. Paired-Samples T-Tests
3. Correlation analysis.

These three analyses determine the number of observations we require. The number of observations required for Factor Analysis depends on the number of constructs and variables. Our 1st hypothesis has 6 constructs with 20 items (variables). It is recommended, as a general rule, to have a minimum of 5 times as many observations as the number of variables analyzed, with 10 times being even more appropriate (Hair *et al.*, 2006). Therefore, given 20 variables, 200 observations (10 times*20 variables) would be adequate. For Paired-Samples T-Tests, a minimum of 20 observations is recommended (Hair *et al.*, 2006). As for our 3rd analysis, 30 observations is considered acceptable for correlational analysis with a single independent variable. Of our 3 analyses, it is the Factor Analysis that requires the larger sample of a minimum of 100 observations with a recommended 200 observations. Therefore, 200 observations is an adequate sample size to conduct our 3 analyses.

Based on 200 observations we determine the number of questionnaires to send out. This number is based on a minimum response rate. Attempts are made to increase our rate of response by following the Total Design Method (TDM) by Dillman (2007). However, given the length of our questionnaire and some resistance observed during our 2 pre-tests, our response rate was expected to be low. A similar study that sent questionnaires to CFOs in private companies had an 18% response rate in which the authors claim is similar to other studies, where respondents are found from membership lists (Iyer and Rama, 2004). Based on a response rate of 18% we would need a database of 1111 companies ($200/.18$).

To find a database of at least 1111 companies we needed to respect the criteria that are consistent with our conceptual framework such as:

- Private companies.
- English as a preferred language
- Head Office (to avoid subsidiaries of public companies)
- Over 100 employees.

The size of the company was determined by the number of employees and not the sales volume, for the following reasons. As we argued in our conceptual framework, to assure that there exists an agency relationship between the manager (agent) and the owner (principle), the owner or owners should not own and manage 100% of the firm's equity. Therefore, we want to exclude small companies from the database. Statistics Canada defines Small Firms as those with fewer than 100 employees (www.ic.gc.ca).

The number of employees is a better proxy for company size than sales numbers for the following reasons. A representative of the company Profile Canada warned about relying on sales figures. Firstly, sales figures vary from year to year and are not always a reliable indication of company size. The representative also said that since corporate information is supplied voluntarily, some companies are hesitant in providing sales figures; whereas, employee numbers are less sensitive. Therefore, the number of employees is a more reliable number and more stable¹².

¹² Discussion on October 28th 2008 with Profile Canada.

In addition, other audit research has utilized the number of employees as a proxy for company size. In private companies, there is a voluntary demand for an audit in the absence of regulatory demand (Abdel-Khalik, 1993). One of the reasons private companies are audited in the absence of regulatory demand is to compensate owners for the loss of direct supervision and control (Abdel-Khalik, 1993). This is consistent with the Monitoring Theory, where the manager (agent) demands an audit to provide accurate information to the owner (principle) (Wallace, 1980). For this situation to exist there needs to be a separation from owners and managers. The proxy used by Abdel-Khalik (1993) for the separation of ownership and control is the different administrative levels. The greater the number of employees, the more administrative layers an organization will have (Abdel-Khalik, 1993). Therefore, the number of employees is a better determinate of company size than sales revenue.

Given the required criteria, we investigated possible lists from Canadian reputable companies. We had discussions with 3 companies that have been used in other Canadian survey studies:

1. Scott's
2. Dunn and Bradstreet
3. Profile Canada

Scott's was eliminated because they were unable to separate private and publicly listed companies (see Appendix J).

Dunn and Bradstreet did not provide adequate output data. For example, only top-level decision makers are available and not the key financial executive, which is our target respondent (see Appendix K).

Profile Canada was able to distinguish between private and public companies and provide key executive staff names, including financial executives. In addition, they are able to identify if a company is a head office. This is important since we do not want private companies that are subsidiaries of foreign corporations. The decisions for the audits of subsidiaries could be decided at the head office. Therefore, we have decided to acquire a list from Profile Canada based on the following criteria

- 1) Private Company
- 2) Head Office
- 3) English speaking
- 4) 100 plus employees

Based on this criteria, Profile Canada produced a list with 1,560 Companies in an Exportable Excel File (see Appendix L). This number of participants provides an adequate number of observations based on the above explanation

3.7 QUESTIONNAIRE PRE-TESTING

Our Questionnaire was pre-tested to assure participant understanding and interest. It is recommended to choose pre-test participants that are not be part of the research but that are individuals who are representative of potential participants (Babbie and Benaquisto, 2002; Roberts, 2004). In addition, it is recommended to look for the following characteristics when pre-testing an instrument: understandable instructions, clear wording, adequate answers, sufficient detail, regional differences, difficult sections, irrelevant questions, length, and convenience (Roberts, 2004). It is also recommended to administer the pre-test in the same conditions to those of the actual participants and to make appropriate additions, deletions, and modifications to the questionnaire (Isaac and Michael, 1995). The results of our two rounds of pre-tests are presented in the following two sections.

3.8 QUESTIONNAIRE PRE-TEST (1ST ROUND)

In September 2008, we began an initial pre-test with both colleagues and executives (audit clients), and we received comments from the following 8 participants:

- 5 corporate executives with direct relationships with auditors.
- 2 professors from UQAM who are chartered accountants and who have survey questionnaire experience.
- 1 research assistant from Concordia University working on a Canada-wide survey.

We attempted to find participants with experience managing relationships with auditors and other participants with experience in survey research studies. We made an initial request to 10 potential candidates and received comments from 8.

In the pre-test, we paid attention to the Tailored Design Method (TDM) developed by Dillman (2007); the TDM is a method used to achieve high response rates in mail surveys. One of the important elements of the TDM is to make sure the questionnaire is Respondent-Friendly: clear and easy to understand with questions that are interesting and important (salient) to the respondent, and a layout that makes it easy for respondents to respond.

The pre-test participants were asked to read and answer the questions in the questionnaire and give any comments that could help improve the instrument; we specifically asked for comments to render the questionnaire more Respondent-Friendly. The following are the comments from the 8 participants. We then follow the pre-test comments with recommended changes to the questionnaire.

In general, all the candidates found the questionnaire too long. The average time to complete the questionnaire was 1 hour, which was frustrating for the participants because in the cover letter we say that the questionnaire will take only 45 minutes. Most of the participants said they would have stopped after 30 minutes and that 30 minutes should be the target time.

The cover letter was found to be too long, and it took too long to get to the research objective. Pre-test participants made suggestions to cut redundancies. For example, in the first paragraph, we say the study is part of a joint-program, which includes four universities. However, this same information is presented at the end of the cover letter. In addition, the objective of the research project needs to be presented earlier in the cover letter.

The cover letter only says that our objective is to determine the client's relational approach; however, it does not say anything about the personal characteristics. Therefore, when the pre-testers arrived at the personal characteristics sections, they were frustrated because they did not understand the relevance of the questions with the research objective.

This is an important point that is discussed by Dillman (2007) in his TDM; the questions need to be consistent with what the respondents have been told in the cover letter. The cover letter sets the expectations of the respondent (Dillman, 2007). We only mention the relational

preference objective in the cover letter; therefore, we needed to add a part saying that we also will be asking personality questions. In addition, it could help to reiterate a brief objective at the beginning of each section in order to better manage respondents' expectations.

The pre-test participants questioned the relevance of certain demographic questions. For example, it was questioned why we are asking so many personal questions, such as the level of education and the year of birth. They wondered why this was necessary for our research. Dillman (2007) stresses the importance of minimizing the requests to obtain personal information. Research shows that respondents resist personal questions, unless the questions are an important part of the research objective (Dillman, 2007). In addition, Bradburn *et al.* (2004) stress the importance of asking only necessary questions that will lead to testing hypotheses; all other questions should be eliminated to reduce the response time. Moreover, each question should have a direct purpose to the research objectives (Bradburn *et al.*, 2004). Therefore, we removed the following demographic questions, which were questioned by the participants and which will not influence our research objectives.

- Birth day
- Level of education
- Field of study
- Number of employees under your responsibility
- Number of years of experience

Some of the questions regarding the relational questions were confusing needing further explanation and clarification. The terms that needed clarification are the following:

- Payoffs
- Arm's length
- Long-term venture
- Cooperative effort
- Leverage

We incorporated these suggestions and modified the questionnaire. Once the questionnaire was modified, we proceeded with a second round of pre-tests.

3.9 QUESTIONNAIRE PRE-TEST (2ND ROUND)

In October 2008, we began a 2nd round of pre-tests with both colleagues and executives (audit clients). One of our main objectives of the second round of pre-tests was to obtain a maximum diversity among the pre-test participants, which is considered important when pre-testing a mail survey questionnaire (Bradburn *et al.*, 2004).

We received comments from 10 participants possessing the following characteristics:

- 5 participants who have experience as audit clients (all 5 have professional accounting titles).
- 2 professors from UQAM and University of Laval who have professional accounting designations and who have survey questionnaire experience.
- 1 PhD student with mail survey experience studying in an international business program in Belgium.
- 1 professor at Trenton University in Toronto with a Post-Doctorate degree and extensive international experience with questionnaires and mail surveys.
- 1 account executive with extensive corporate client experience in a sales function.

These pre-test participants were asked to read and answer the questions in the questionnaire and give any comments that could help improve the instrument. We asked them to pay attention to the clarity and ease of the questionnaire. As in the 1st round of pre-tests, in the 2nd round we wanted to pay attention to the Tailored Design Method (TDM) developed by Dillman (2007).

The pre-testers all thought the questions were interesting and that the questionnaire was well structured. Also, they all enjoyed the visual analogue scale which was perceived as simple and clear. However, they all found the questionnaire long, and they all agreed that they would only have filled out the entire questionnaire given certain changes. The average time required to fill out the questionnaire was slightly more than 30 minutes. Modifications were

made to reduce the length below the 30 minutes, which is consistent with what we say in our cover letter.

For the minor grammar or non-significant changes, we modified the questionnaire. For the more significant changes, we describe them below and modified the questionnaire accordingly.

Similar to the first round of pre-tests, the transition from the main relational questions to the personality questions caused problems because the expectations were not properly managed. Therefore, we added a small explanation at the end of the relational section to manage better respondent expectations. Moreover, it was recommended to add titles for each personality section which could help the respondent understand the purpose of each section.

Question 10 and 11 were found to be confusing because of the word Power. Therefore, we referred back to the original measures (Kaufman and Dant, 1992) and reformulated the questions.

Bradburn *et al.* (2004) recommends avoiding the repetition of the same type of question in a questionnaire as a measure of reliability. Two reasons are given for this: respondents will get frustrated, and they will also perceive an increased importance of the question. Therefore, given the objective to reduce the length of the questionnaire, we reduced a few questions that were being asked only for reliability checks (where reliability is already being measured). For example, as a last question, we were going to ask a summary question regarding the respondents overall relational preference. This question was perceived as long and difficult by the respondents, and this question took up 1 page of space. There are enough similar questions (items) to measure reliability.

To measure TA or RA we use 6 constructs and each construct is measured using 2 to 5 questions in each construct. These constructs and questions are derived from past studies that have determined a high level of reliability. Therefore, as much as an overall general question would be a good reliability check, this extra reliability comes at too high a cost; the cost being almost an extra page to the questionnaire and a question that is perceived as frustrating by the pre-testers. Therefore, we removed this question.

Dillman (2007) recommends starting the questionnaire with a salient beginning (important and interesting), an important factor that increases response rates in mail surveys (Dillman, 2007). Therefore, since respondents usually do not consider demographic questions important or interesting, we have placed them at the end of the study. Question order needs to follow what was told in the cover letter, to establish respondent expectations (Dillman, 2007).

3.10 EFFORTS TO INCREASE RESPONSE RATES

We sent, by mail, 1090 questionnaires on nov 27th 2008. To increase the response rate we made phone calls the day of the mailing. For the 6 following days we called about 100 potential respondents across Canada to ask them if they would please fill out the questionnaire (Appendix H).

The main limitation to a mail survey, compared to other data collection methods, is the low response rate; mail surveys with response rates over 30% are rare and response rates are often 5% to 10% (Alreck and Settle, 1995). Therefore, we made additional efforts to increase our response rate. The underlying theory of the TDM is Social Exchange theory: "People are more likely to complete and return self-administered questionnaires if they trust that the rewards of doing so outweigh the costs they expect to incur" (Dillman, 2007 pg 29).

There are many different recommendations, using the TDM, to increase response rates and the following are the recommendation that we incorporated in our mail survey, which follow Social Exchange theory:

- Rewards: In the cover letter we gave the reason why the survey was being done. We did not exaggerate the importance of our research, but rather asked for their help in a study that is part of a PhD thesis. We also showed appreciation in advance for their help. Social Exchange theory shows that the feeling of being asked for assistance and being appreciated is a form of reward (Blau, 1964; Homans, 1961 cited by Dillman, 2007). Other forms of rewards are the offering to share results of the survey (Alreck and Settle, 1995) (Appendix H). We believe that our most important initiative, which helped convince potential respondents to respond, was our phone calls that we made to almost everybody on our sample list of 1090 individuals. The day that we sent our

questionnaires, we began our phone calls. The sole objective was to tell the people they were about to receive a questionnaire that is an important study necessary for the completion of a PhD thesis, and that we wanted to thank them in advance for their help.

- Sponsorship by legitimate authority: When people know that a credible, authoritative organization approves a study and encourages participation, response rates have increased (Cialdini, 1984). To assure sponsorship we asked a Vice President of CMA Canada to write a letter of endorsement (Appendix B).
- Reduce social costs: Making a questionnaire simple and interesting to fill out is important, with few inconveniences. When great physical and mental effort are required, social costs are perceived high by respondents (Dillman, 2007). Therefore, we explained clearly how to fill out the questionnaire with a detailed example. We also tried to make our questions interesting for the respondents, and we included a preaddressed and prepaid return envelopes, which increases response rates (Alreck and Settle, 1995). In addition, it is stressed to say in the Cover Letter that the Questionnaire is designed to be filled out easily and quickly (Alreck and Settle, 1995), which we did (Appendix A).

To calculate response rates, it is advised to reduce the amount sent by the questionnaires that were not delivered (Babbie and Benaquisto, 2002). The number of questionnaires that could not be delivered due to the wrong address or wrong person is subtracted from the initial number of companies, which gives the net sample of questionnaires delivered. The number of completed questionnaires is then divided by the net sample. The response rate then becomes an indication of our ability to persuade individuals in our sample to respond. Therefore, since 100 questions were not delivered, our response rate is 306 divided by 990, which equates to a 30,91% response rate.

To summarize our methodology chapter, we started by describing how we measure the Transactional and Relational Approach constructs in order to test our main hypothesis. We then present different measures that have been used in past research and we borrow the measurement instrument that is most appropriate to measure an audit client's marketing preference. In addition, we describe the measures of our personal characteristics, which are

also based on prior research. We then explain the procedure to collect data and the description of our target participants, including the data base from which we chose our mailing list. We highlight our pre-tests along with modifications to the original questions that we borrowed. We end the chapter with the method we used to assure a satisfactory response rate. In the following chapter, we conduct a preliminary data analysis.

CHAPTER IV

PRELIMINARY DATA ANALYSIS

In this section, we describe our collected data and the variables we use to test the four research hypotheses. More precisely, this data analysis section is outlined as follows. We describe the contents of our questionnaire and our rating process that we use for each question. We describe the personal and corporate information concerning our respondents. We analyze the missing data of each section and we describe our approach to replace our missing data. We describe the data that measure the four variables we use in our four hypotheses, including the analysis of reliability, validity and normality for the data of each variable. We test for non-respondent bias. Finally, we test to determine if the corporate and personal information of our respondents influence the four variables. At the end of this section, we are in a position to test the four hypotheses.

4.1 DATA COLLECTED

We mailed 1090 questionnaires across Canada at the end of November 2008. We received 306 completed questionnaires. Since 100 questionnaires were sent back unopened due to wrong addresses, our response rate is 30,91% ($306 / (1090-100)$). Other similar survey studies have similar response rates which were considered satisfactory levels. Pilote and Elbakkali (2004) investigated audit partners' relational preference in the province of Quebec using a mail survey and had a response rate of 29,20% with 263 valid questionnaires returned. Fink *et al.* (2007) uses the same relational measurement instrument as the one used in the present research. In a mail survey, they received 372 completed questionnaires for a response rate of 32,00%. As mentioned in the methodology section, the minimum necessary observations were fixed at 200, which is a recommended number to conduct analysis for summated scales (Hair *et al.*, 2006). We conservatively predicted a response rate of 18,00% which was based on a similar study (Iyer and Rama, 2004), where questionnaires were sent to the CFOs of private companies. Iyer and Rama's (2004) argue that the 18,00% rate is similar to other studies, where respondents were found from membership lists. Since our

study was also a mail survey sent to CFOs of private companies based on a membership list we consider our 30,91% rate to be very good.

Each questionnaire contains five sections of which four are used to measure the four variables and the fifth is used to collect personal and corporate information. Twenty questions were used to measure Relational Preferences (relpref¹³ H1) (Appendix C); eight questions were used to measure Risk Aversion (risk¹⁴ H2) (Appendix D); twelve questions were used to measure Ethics of Care (care¹⁵ H3) (Appendix E); seventeen questions were used to measure Locus of Control (loc¹⁶H4) (Appendix F); and finally, seven questions were used to collect Personal and Corporate Information (Appendix G).

The questions for the Relational Preferences, Risk Aversion, and Ethics of Care questions were measured using a Visual Analogue Scale (VAS). The Locus of Control questions included two statements, where respondents were asked to choose the statement that they perceived as truer among two; each answer was coded as 0 or 1. The Personal and Corporate Information questions were comprised of seven demographic questions: numerical and descriptive.

4.2 RATING PROCEDURE OF SECTION A, B AND C IN QUESTIONNAIRE.

Because of the visual analog scales used, a rating procedure was applied to insure accuracy of the response value used in the analyses of the related hypotheses. Where appropriate, all the answers in each questionnaire were rated by individuals (raters) that were given clear instructions on how to measure each response accurately and consistently. A first rater measured the answers in the questionnaire and assigned numbers on a separate piece of paper. A second rater re-measured the answers and the numbers were written directly on each questionnaire. To verify the work of the two raters there was an evaluation by a third rater to see if the two raters had the same measure. Measures that were different were re-measured by the third rater to obtain an accurate measure. After each measure of all questions was verified three times, the data was entered into SPSS by a fourth individual and verification was done by a fifth individual to assure the data was properly entered.

¹³ This variable is a single mean score of the individual items listed in the SPSS database described further in the text.

¹⁴ See note 14, above

¹⁵ See note 14, above

¹⁶ See note 14, above

For the questions with VAS lines, the raters used a ruler to assign a number for each answer. We had asked the respondents to indicate their answer by marking an X anywhere on the VAS line, which was represented with two extremes: *Totally disagree* on the extreme left hand side of the line and *Totally agree* on the extreme right hand side of the line, as shown in Figure 4.1¹⁷.

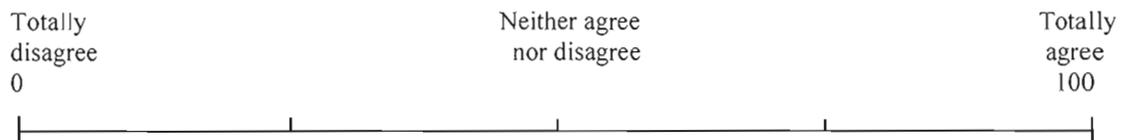


Figure 4.1 Relational scale

The rulers used for the VAS line were identical for each rater and had small lines representing millimetres. With the purpose of obtaining an absolute number for each VAS line with the largest variance possible, we decided that each millimetre (each line on the ruler) would represent 10 units. Therefore, 1 centimetre, which is 10 lines on the ruler, represented 100 units (10 lines X 10 units). The total units for each VAS line on the questionnaire were 1585 units and the level of precision was as low as 5 units. If an X fell on a line, on the ruler, the measurement score would be a multiple of 10 units. If an X was put in between two lines on the ruler, we accounted for 5 units. For example, if the X was in between the beginning of the ruler (0) and the 1st line, we would indicate 5 units. If the X was in between the 1st and 2nd line we would indicate $10 + 5 = 15$ units and so forth. To determine where exactly the X was located, we used a straight edge and drew a short line across and perpendicular to the VAS line. The distance of this short line was then measured from the beginning of the VAS line by a ruler to indicate a number between 0 (the minimum) and 1585 units (the maximum).

To summarize our Questionnaire, each of the sections represents one variable and each variable represents an individual hypothesis (with the exception of the Personal and Corporate information), as described in Table 4.1.

¹⁷ This line is only an example and not as precise as the VAS lines on our questionnaire.

Table 4.1
Questionnaire Description

Variable description	Variable name in SPSS	Location	Scale	Hypothesis
Relational Preference	Relpref	Appendix C	0-1585	Hypothesis 1 (H1)
Risk Aversion	Risk	Appendix D	0-1585	Hypothesis 2 (H2)
Ethics of Care	Care	Appendix E	0-1585	Hypothesis 3 (H3)
Locus of Control	Loc	Appendix F	0-14	Hypothesis 4 (H4)
Personal and Corporate information	7 Various names	Appendix G	Demographic Data	No Hypothesis (Control Variables)

4.3 DESCRIPTION OF SAMPLE

In our Questionnaire, the Personal and Corporate information sheet was used to obtain demographic information from respondents: their gender, the number of years of experience, the name of their audit firm, the length of time with their audit firm, the type of service, and the percentage of fees for audit services versus other services. A total of 306 questionnaires were completed, but the Personal and Corporate information was not filled out by 5 respondents. Therefore, the total number of questionnaires for the Personal and Corporate information is 301 as shown in Table 4.2.

Even though 301 respondents filled out the Personal and Corporate information not all the questions were filled out. This explains why the number of Participants (N) varies according to each question (Table 4.2). For the experience in the area of work question, 2 of the 301 respondents did not answer, resulting in 299 completed responses for this question. For the audit firm description question, 30 of the 301 respondents did not answer, for a total of 271 completed responses. We expected this question to be the most sensitive as not everyone is comfortable divulging the name of their service supplier. For the time spent with the audit firm question, 9 of 301 respondents failed to respond, for a total of 292 completed responses. For the percentage of fees for audit services question, 2 of 301 respondents did not answer resulting in a total of 299 completed responses, and 6 of 301 respondents did not indicate a

percentage of fees for other services, for a total of 295 completed responses for this question.

Table 4.2 shows the results of our Personal and Corporate information.

Table 4.2
Personal and Corporate information

	Participants N	%	Mean	Std-Dev	Med	Min	Max
<u>Gender</u>							
Male	209	69,40					
Female	92	30,60					
Total	301						
<u>Exp. Position (years)</u>	301		11,50	9,34	9,00	0,25	55,00
<u>Exp. Area of work (years)</u>	299		24,84	8,75	25,00	5,00	55,00
<u>Firm</u>							
Big 4	119	43,90					
Non-Big 4	152	56,10					
Total	271						
<u>Time with audit firm (years)</u>	292		11,27	8,51	9,50	0,08	40,00
<u>Services</u>							
Audit- Review	296	98,30					
Notice	5	1,70					
Total	301						
<u>% fees-audit (rev)</u>	299		87,77%	16,79%	95,00%	0,00%	100,00%
<u>%fees –other services</u>	295		12,33%	16,85%	5,00%	0,00%	100,00%
<u>Date of reception</u>							
Dec 2008	236	77,10					
Jan-mar 2009	70	22,90					
Total	306						

From Table 4.2 we see that 69,40 % of respondents are male (men) and 30,60% are female (women). The average number of years in the actual (current) position of respondents is 11,50 years (9,34 SD), ranging from 0,25 year to a maximum of 55,00 years¹⁸. In the area of work, years vary from a low of 5,00 years to a maximum of 55,00 years with a mean of 24,84 years (8,75 SD). Among the respondents who provided the name of their audit firm, 43,90% dealt with Big-4 firms and 56,10% of respondents dealt with Non-Big 4 firms. The

¹⁸ The maximum number of years for both the experience in the respondents' position and area of work was disclosed at 55 years. We verified the questionnaire to see if there might have been an error but this was the number indicated. It is possible that an employee who started very young in a company could still be in the same company after 55 years, especially in the case of an owner/manager. Therefore we will keep the extreme value as the maximum (given that we have no evidence showing this number to be an error or a misrepresentation).

time spent with these firms varied from one month to 40 years with an average of 11,27 years (8,51 SD). Of the total respondents who provided their service, 89,30% received an Audit service; 9,00% had a Review Engagement, and 1,70% had a Notice to Reader. Consistent with these findings, the percentage of fees paid for Audit and Review engagements was on average 87,77 % (16.79% SD), while the remaining percentage (12,33%) was for other billable services. We received questionnaire responses from December 2008 to March 2009; 77,10% of the questionnaires were received in December and the remainder (22,90%) arrived in January-March 2009. These findings were used to estimate the non-respondent bias.

4.4 MISSING DATA

In some of our questionnaires, there is missing data. Most data that is collected in mail survey studies have missing data (Boslaugh and Watters, 2008). Various reasons could explain missing data. Because anonymity was insured, we could not call back respondents to inquire as to why there were some questions left blank. Therefore, there is no certain explanation that could be given to explain the reason for missing data in our study. We do not attempt to explain the missing data but rather to determine if the amount is important and what to do with the missing data. Various solutions are recommended which depend on the significance in the number of missing answers. It is also important to observe to see if the missing answers seem random or if many of the same answers are left blank. If the missing data seems simply random and not centered on the same questions, it can be assumed that no question caused any particular problem. In terms of the amount of acceptable missing data, less than 10,00% can be ignored or the series mean can be used to replace the missing data (Hair *et al.* 2006); both methods give the same results. Less than 5,00% of the questions for each variable is considered a divergence from randomness, and therefore can be ignored or replaced with the series mean (Tabachnick and Fidell, 2007). We have a small amount of missing data; the percentage of missing data is under 5,00% for each question with a minimum of 0,00% to a maximum of 3,30%. We present the percentages of missing data in Tables 4.3 to 4.6. Therefore, we replace our missing data with the series mean for all participants.

Table 4.3
Relational Preference (Percentage of missing data)

Variables (Questions)	Total N	Missing DATA	Percentage %
Focpref1	306	6	2,00
Focpref2	306	5	1,60
Focpref3	306	6	2,00
Solpref1	306	4	1,30
Solpref2	306	7	2,30
Solpref3	306	9	2,90
Solpref4	306	2	0,70
Solpref5	306	2	0,70
Solpref6	306	5	1,60
Powpref1	306	7	2,30
Powpref2	306	6	2,00
Rolpref1	306	4	1,30
Rolpref2	306	6	2,00
Rolpref3	306	5	1,60
Flepref1	306	4	1,30
Flepref2	306	5	1,60
Flepref3	306	3	1,00
Mutpref1	306	1	0,30
Mutpref2	306	2	0,70
Mutpref3	306	2	0,70

Table 4.4
Risk Aversion (Percentage of missing data)

Variables (Questions)	Total N	Missing DTA	Percentage %
Risk1	306	1	0,30
Risk2	306	1	0,30
Risk3	306	1	0,30
Risk4	306	4	1,30
Risk5	306	0	0,00
Risk6	306	0	0,00
Risk7	306	0	0,00
Risk8	306	0	0,00

Table 4.5
Ethics of Care (Percentage of missing data)

Variables (Questions)	Total N	Missing DTA	Percentage %
Care 1	306	0	0,00
Care 2	306	0	0,00
Care 3	306	0	0,00
Care 4	306	0	0,00
Care 5	306	3	1,00
Care 6	306	3	1,00
Care 7	306	3	1,00
Care 8	306	4	1,30
Care 9	306	4	1,30
Care 10	306	2	0,70
Care 11	306	2	0,70
Care 12	306	2	0,70

Table 4.6
Locus of Control (Percentage of missing data)

Variables (Questions)	Total N	Missing DTA	Percentage %
Locus1	306	5	1,60
Locus2	302	6	2,00
Locus3	306	4	1,30
Locus4	306	3	1,00
Locus5	306	5	1,60
Locus6	306	5	1,60
Locus7	306	5	1,60
Locus8	306	6	2,00
Locus9	306	7	2,30
Locus10	306	10	3,30
Locus11	306	7	2,30
Locus12	306	9	2,90
Locus13	306	5	1,60
Locus14	306	7	2,30
Locus15	306	6	2,00
Locus16	306	5	1,60
Locus17	306	6	2,00

4.5 SUMMATED SCALE, RELIABILITY, VALIDITY OF THE RELATIONAL PREFERENCE VARIABLE

Our main hypothesis (H1) is *The audit client will prefer a more Relational Approach (RA) over a Transactional Approach (TA) with their auditor.* To test H1 we needed a measure able to quantify an audit client's relational preference and determine whether the preference is more relational (RA) or more transactional (TA).

The measure we used in our survey to test the audit client's relationship preference was based on a multi-dimensional measurement instrument developed by Kaufmann and Dant (1992). These authors based their measurement model on the theoretical framework of Macneil (1980). The measurement instrument was subsequently operationalized by Ferguson *et al.* (2005), Fink *et al.* (2007), Paulin *et al.* (1997; 2000), and Rokkan *et al.* (2003), in various industries. Even though the measurement instrument was conceptualized as a multidimensional measure, it was operationalized as a unidimensional scale. The scale dimensions were summated into a single mean score, enabling the researchers to determine a level of relationalism: high scores determined a relational approach (RA) (also referred to as high relationalism) and low scores determined a transactional approach (TA) (also referred to as a discrete relationship or low relationalism) (Ferguson *et al.*, 2005; Fink *et al.*, 2007; Heide, 1994; Heide and John, 1992; Paulin *et al.*, 1997; 2000; Rokkan *et al.*, 2003). In all of these studies, the multiple dimensions were compressed into the single construct: relationalism. This single construct was theoretically justified by the work of Macneil (1980) and was statistically justified using Confirmatory Factor Analysis. Similar to these studies, our objective is also to determine a single mean score by summating items in our measurement instrument. Even though these previously mentioned studies show theoretical and statistical justification for summing their multi-item scales into a single score, we test our variables to meet the four conditions for a summated scale suggested by Hair *et al.* (2006):

- 1) The items in the summated scale need theoretical justification (pg 139).
- 2) The summated scale needs to be assessed for unidimensionality by factory analysis (pg 139).
- 3) The reliability of the scale needs to be assessed by the Cronback Alpha (pg 139).

- 4) Validity should be assessed (Construct Validity is assessed by theoretical justification) (pg 139).

We followed these four recommendations to assure we meet the conditions of a summated scale for our Relational Preference (relpref) variable. The first condition of theoretical justification is met as the 20 questions (items) to measure the client's relational preference were derived from six dimensions based on the conceptual framework of Macneil (1980) and further conceptualized and empirically tested in published research, in the above mentioned literature.

To test the second condition for a summated scale, we assessed the unidimensionality of our 20 relational preference items using exploratory factor analysis (FA), in SPSS. The Rotated Component Matrix in our FA (Table 4.7) did not indicate high item loadings under any of the six conceptually designed dimensions: Focus, Solidarity, Power, Role, Flexibility, and Mutuality. For the dimensions with moderately high item loadings, the inter-item correlation was not high enough to justify multiple dimensions.

We are not surprised that the items in our study did not load under factors similar to the studies from where we borrowed our measures (Fink *et al.*, 2007; Kaufman and Dant, 1992; Rokkan *et al.*, 2003). The respondents in these studies were from different industries and from different socioeconomic backgrounds; these differences can easily result in different FA results (Tabachnick and Fidell, 2007). More importantly, the individual factors (dimensions) are less important for our study as we are not interested in a multi-dimensional measurement but rather a single measure to quantify a relational (RA) or transactional (TA) approach. Therefore, what is important to conclude from our FA is that no particular factor structure, with highly correlated items under any one factor (dimension), are present. In the absence of a clear factor structure, it is then recommended to study the measurement instrument as a multi-item scale to measure unidimensionality (Hoyle *et al.*, 2002).

Table 4.7
Exploratory Factor Analysis (FA)

Rotated Component Matrix								
	Component							
	1	2	3	4	5	6	7	8
FOCPREF1	0,430						0,333	
FOCPREF2						0,876		
FOCPREF3	0,369					0,662		
SOLPREF1			0,738					
SOLPREF2			0,687					
SOLPREF3							0,839	
SOLPREF4		0,491					0,412	
SOLPREF5			0,311	0,751				
SOLPREF6			0,478					0,365
POWPREF1					0,436		-0,413	
POWPREF2					0,709			
ROLPREF1	0,810							
ROLPREF2	0,826							
ROLPREF3	0,648			0,347				
FLEPREF1		0,731						
FLEPREF2				0,694				
FLEPREF3		0,646						
MUTPREF1					-0,548			
MUTPREF2		0,492						-0,362
MUTPREF3								0,741

To further our analysis of unidimensionality, we analyze our twenty items, individually, and test the correlations of the individual items with the total score (Corrected item-total corr.) Among our 20 items, 18 are positively correlated, while one item approaches 0 (solpref3 item to total corr. = 0,0085), and one item is negatively correlated (mutpre3 item to total corr. = -0,0539) (Table 4.8).

Table 4.8
Relational Preference (20 items)

Item	Valid N	Scale Range	Scale Mean	Corrected Item-total corr. ¹⁹	Standardized Apha ²⁰
Focpref1	306	0-1585	961,39	0,3346	
Focpref2	306	0-1585	836,47	0,1393	
Focpref3	306	0-1585	807,01	0,4162	
Solpref1	306	0-1585	1238,24	0,2985	
Solpref2	306	0-1585	1389,26	0,3081	
Solpref3	306	0-1585	246,37	0,0085	
Solpref4	306	0-1585	1231,44	0,3847	
Solpref5	306	0-1585	1291,60	0,2786	
Solpref6	306	0-1585	1298,53	0,1950	
Powpref1	306	0-1585	1255,21	0,2095	
Powpref2	306	0-1585	1087,68	0,0982	
Rolpref1	306	0-1585	1111,93	0,4561	
Rolpref2	306	0-1585	1055,64	0,4996	
Rolpref3	306	0-1585	830,52	0,4331	
Flepref1	306	0-1585	1244,93	0,3728	
Flepref2	306	0-1585	1132,58	0,1731	
Flepref3	306	0-1585	1131,99	0,2251	
Mutpref1	306	0-1585	970,39	0,1835	
Mutpref2	306	0-1585	1076,29	0,2026	
Mutpref3	306	0-1585	549,44	-0,0539	
Relpre20	306	0-1585	1037,35²¹		0,6851

¹⁹ SPSS uses four decimal points for the Corrected Item- total corr. scores.

²⁰ We use the standardized alpha since our item scores are summed to form a scale score (Cortina, 1993).

²¹ This score is a mean of the 20 variables.

Removing the variables that approach 0, or negatively correlated, increases the reliability of a scale (Churchill, 1979). In addition to the quantitative reasons for removing *solpref3* and *mutpref3*, we also provide contextual justification for their removal. The *solpref3* item measures the client's preference for an arm's length relationship. This is a reverse item; high scores represent a transactional preference and low scores represent a relational preference. An arm's length relationship, in the Relational Marketing literature has been shown to be present in a transactional relationship between buyers and sellers (Gronroos, 1991; 1994). However, in the audit industry certain regulations characterize the audit-client relationship, which is different from other typical buyer-seller relationships (CICA, 2006) (as explained in the Conceptual Framework). The auditor has the responsibility of maintaining a certain level of independence with their client, and the client is encouraged by the auditor to respect this responsibility (CICA, 2006). Therefore, it is contextually and statistically justified that a low score for this arm length item is not necessarily indicative of a transactional preference but rather a unique characteristic of the client-audit relationship. Accordingly, we will remove this item from the scale.

The second problematic item, *mutpref3*, is negatively correlated with the total score. This item measures how intensely the client prefers monitoring the auditor. In the Relationship Marketing literature when a buyer monitors their supplier, they are showing more of a transactional than relational approach with their supplier (Sheth and Parvatiyar, 1995). However, in the audit industry the client's management team monitors their financial functions, including their internal controls. In addition, they monitor their year-end financial audit to assure that controls are operating as intended (Arens *et al.*, 2007). Unlike the more typical buyer-seller relationships, where supplier monitoring represents low trust and therefore a transactional approach, monitoring of the auditor by the client is part of the client's financial function. Therefore, it is contextually and statistically justified to remove this item from the overall scale.

With the removal of two items, we determine a new 18 item scale (see Table 4.9). The single mean score of this 18-item scale is our Relational Preference variable defined as *relpref* which is used to test our main hypothesis (H1). The *relpref* is the variable we use to test for associations with our secondary variables (H2, H3 and H4). The 18 items have positive item

to total correlations and a total Cronbach Alpha of 0,7208, with a single summated mean of 1108,40 on a scale of 0-1585 (Table 4.9).

Table 4.9
Relational Preference (18 items: solpref3 and mutpref3 are removed)

Variable	Valid N	Scale Range	Scale Mean	Corrected Item-total corr.	Standardized Apha
Focpref 1	306	0-1585	961,39	0,3173	
Focpref2	306	0-1585	836,47	0,1372	
Focpref3	306	0-1585	807,01	0,3883	
Solpref1	306	0-1585	1238,24	0,3055	
Solpref2	306	0-1585	1389,26	0,3342	
Solpref4	306	0-1585	1231,44	0,3914	
Solpref5	306	0-1585	1291,60	0,3000	
Solpref6	306	0-1585	1298,53	0,1939	
Powpref1	306	0-1585	1255,21	0,2388	
Powpref2	306	0-1585	1087,68	0,1316	
Rolpref1	306	0-1585	1111,93	0,4883	
Rolpref2	306	0-1585	1055,64	0,5167	
Rolpref3	306	0-1585	830,52	0,4171	
Flepref1	306	0-1585	1244,93	0,3909	
Flepref2	306	0-1585	1132,58	0,1722	
Flepref3	306	0-1585	1131,99	0,2525	
Mutpref1	306	0-1585	970,39	0,1686	
Mutpref2	306	0-1585	1076,29	0,2141	
Relpref	306	0-1585	1108,40		0,7208

To justify the summation of our 18-item scale (Table 4.9), we review the four conditions for summation by Hair *et al.* (2006). Firstly, each of our items was developed based on the conceptual framework of Macneil (1980) and further developed and operationalized in

various literature, as mentioned above. Secondly, we conclude, after running exploratory FA, that our individual items are not measuring other constructs and could be assumed unidimensional. We also show the unidimensionality of 18 of the 20 items with item to total correlations, which are positively contributing to the overall single relational score. Thirdly, our Cronbach Alpha of the 18 items scale is 0,7208 which is a satisfactory level of reliability (Boslaugh and Watters, 2008; Hair *et al.*, 2006). Fourthly, similar to our first condition, we show Construct Validity by using a scale where the items are derived from a conceptual framework that has been operationalized and further developed by published research.

Further empirical evidence in the Relationship Marketing literature confirms that our summation of relational items, derived from Macneil's (1980), is consistent with other studies. For example, Paulin *et al.* (1997) based her measurement of relationalism on four of Macneil's (1980) relational dimensions: Role integrity (12 items), Communication (10 items), Flexibility (10 items) and Solidarity (10 items); and she used the arithmetic mean for these 42 questions to arrive at a single mean score. Fink *et al.* (2007) used the same six dimensions as in our study: Focus, Power, Solidarity, Role, Flexibility, and Mutuality. With four items within each of their six dimensions, Fink *et al.* (2007) derived a relational score from the arithmetic mean of the 24 items. In addition, Rokkan and Haugland (2000) argue that Macneil's relational dimensions originate from a single construct referred to as relationliasm, which was supported by the work of Noordewier *et al.* (1990) and Heide (1994).

With these studies, we show, along with our statistical analysis, that the 18 items, making up the six Relational Preference dimensions, measure different parts of the relationship preference construct. By summing together all the items that make up the six dimensions we cancel out error components of each item while strengthening the true construct component of each item (Hoyle *et al.*, 2004). Therefore, our measure of the client's Relational Preference (relpref) is the arithmetic mean of 18 items which gives a single mean score of 1108.40 on a scale of 0-1585 for 306 observations (Table 4.9).

In addition, we further test for the nomological validity of our relationship preference construct. Nomological validity determines if a measure represents what it should measure, based on prior theory, or prior empirical research (Hair *et al.*, 2006.). Two methods are

recommended. Firstly, variables within the research model, that theoretically should correlate together, are tested. Secondly, the correlation of variables, outside of the model, based on theoretical justification, is tested (if possible) (Hair *et al.*, 2006).

The 18 items, making up our Relational Preference measure, are derived from dimensions theoretically developed by Macneil (1974; 1978; 1980; 1981; 1983). These Relational Preference dimensions are further conceptualized on a Transactional-Relational continuum by Dwyer *et al.* (1987) and empirically tested by Ferguson *et al.* (2005); Fink *et al.* (2007); Kaufman and Dant (1992), Paulin *et al.* (1997; 2000); Rokkan and Haugland (2000). This Transactional-Relational continuum is considered the most comprehensive conceptual model to understand relational exchange (Nevin, 1995 cited by Paulin *et al.*, 2000).

Macneil's (1978; 1980; 1981; 1983) six relational dimensions have been conceptualized to move in the same direction (correlated). Therefore, we test the six dimensions (Solidarity, Role, Focus, Power, Mutuality, and Flexibility) from which our individual items are derived. The results are presented in Table 4.10. Using the Pearson Correlation, the matrix shows that most of the dimensions are significantly correlated. Out of a possible 15 different associations, only 3 are not significantly correlated (MUTPREF-POWPREF, FOCPPREF-POWPREF, FLEFPREF-POWPREF). Kaufman and Dant (1992) had similar results with dimension correlations. The authors claim the correlations support Macneil's (1980) Relational Exchange Theory. Therefore, we confirm that the items we are using to measure relational preference show strong nomological validity. In addition, the positive inter-dimension correlations (Figure 4.10) strengthen the internal consistency and further supports the reliability of our relational preference (relpref) measurement.

Table 4.10
Dimension Correlations

		SOLPREF	ROLPREF	FOCPREF	POWPREF	MUTPREF	FLEPREF
SOLPREF	Pearson Correlation	1	0,358(**)	0,204(**)	0,255(**)	0,272(**)	0,329(**)
	Sig. (2-tailed)		0,000	0,000	0,000	0,000	0,000
	N	306	306	306	306	306	306
ROLPREF	Pearson Correlation	0,358(**)	1	0,335(**)	0,194(**)	0,128(*)	0,217(**)
	Sig. (2-tailed)	0,000		0,000	0,001	0,025	0,000
	N	306	306	306	306	306	306
FOCPREF	Pearson Correlation	0,204(**)	0,335(**)	1	0,065	0,162(**)	0,120(*)
	Sig. (2-tailed)	0,000	0,000		0,260	0,005	0,036
	N	306	306	306	306	306	306
POWPREF	Pearson Correlation	0,255(**)	0,194(**)	0,065	1	-0,037	0,096
	Sig. (2-tailed)	0,000	0,001	0,260		0,522	0,094
	N	306	306	306	306	306	306
MUTPREF	Pearson Correlation	0,272(**)	0,128(*)	0,162(**)	-0,037	1	0,339(**)
	Sig. (2-tailed)	0,000	0,025	0,005	0,522		0,000
	N	306	306	306	306	306	306
FLEPREF	Pearson Correlation	0,329(**)	0,217(**)	0,120(*)	0,096	0,339(**)	1
	Sig. (2-tailed)	0,000	0,000	0,036	0,094	0,000	
	N	306	306	306	306	306	306
** Correlation is significant at the 0.01 level (2-tailed).							
* Correlation is significant at the 0.05 level (2-tailed).							

4.6 RELIABILITY AND VALIDITY OF SECONDARY VARIABLES

Our secondary variables (Risk Aversion, Ethics of Care and Locus of Control) are used to test our three secondary hypotheses (H2, H3, and H4).

We tested for the reliability of the secondary variables, using the Cronbach Alpha. The Risk Aversion (risk) variable has an Alpha of 0,8224, the Ethics of Care (care) variable has an Alpha of 0,7033, and the Locus of Control (loc) variable has an Alpha of 0,6458 (Table 4.11). The Cronbach alphas for the three variables are considered satisfactory (Hair *et al.* 2006).

Table 4.11
Reliability of three Secondary Variables

Variable	Participants (N)	Number of items	Scale	Cronbach Alpha
Risk Aversion (risk) (H2)	306	8	0-1585	0,8224
Ethics of Care(care) (H3)	306	6	0-1585	0,7033
Locus of Control(loc) (H4)	306	14	0-14	0,6458

Validity assures that a scale measures the construct of interest. One form of Validity is Face or Construct validity, which depends on the theoretical representation of each construct (Hair *et al.*, 2006). The validity of our secondary variables is demonstrated by the fact that Risk Aversion, Ethics of Care and Locus of Control have been borrowed from other empirical and conceptual work and have not been modified in this study (Liddell, 1990; Rotter, 1966; Slovic, 1972). The three personal characteristic variables were also tested for nomological validity.

The Risk Aversion measure includes 8 items, which show high internal consistency with significant inter-item correlations as predicted by the original theory (Rotter, 1966). Other data collected in our study, outside of our main model, correlate with the Risk Aversion construct. When the Risk Aversion construct is correlated against the demographic data, there are significant correlations with the years of experience in both the respondents' position (RISK-EXPOS, $r = 0.219$, $p = 0,000$) and the respondents' area of work (RISK-EXPWORK, $r = 0,183$, $p = 0.001$) (Table 4.12).

Table 4.12
Correlations of secondary variables with demographics

		GENDER	EXPOS	EXPWORK	FIRM	LGTH	SERVICE	FEEAUD	DATE	RISK	CARE	LOC
GENDER	Pearson Correlation	1	0,101	0,091	0,007	0,074	-0,027	0,087	0,002	-0,074	-0,036	-0,053
	Sig. (2-tailed)		0,082	0,115	0,909	0,204	0,646	0,139	0,979	0,202	0,536	0,355
	N	301	301	299	271	292	301	294	301	301	301	301
EXPOS	Pearson Correlation	0,101	1	0,837(**)	-0,029	0,194(**)	0,006	-0,039	0,076	0,219(**)	0,201(**)	0,010
	Sig. (2-tailed)	0,082		0,000	0,636	0,001	0,915	0,507	0,190	0,000	0,000	0,866
	N	301	301	299	271	292	301	294	301	301	301	301
EXPWORK	Pearson Correlation	0,091	0,837(**)	1	-0,093	0,045	-0,019	-0,024	0,120(*)	0,183(**)	0,213(**)	0,049
	Sig. (2-tailed)	0,115	0,000		0,126	0,449	0,748	0,684	0,038	0,001	0,000	0,396
	N	299	299	299	270	290	299	292	299	299	299	299
FIRM	Pearson Correlation	0,007	-0,029	-0,093	1	0,012	0,121(*)	0,079	-0,025	0,042	0,032	0,027
	Sig. (2-tailed)	0,909	0,636	0,126		0,841	0,046	0,199	0,677	0,493	0,598	0,655
	N	271	271	270	271	265	271	264	271	271	271	271
LGTH	Pearson Correlation	0,074	0,194(**)	0,045	0,012	1	-0,036	-0,086	0,060	0,089	0,089	-0,038
	Sig. (2-tailed)	0,204	0,001	0,449	0,841		0,545	0,148	0,310	0,131	0,128	0,518
	N	292	292	290	265	292	292	285	292	292	292	292
SERVICE	Pearson Correlation	-0,027	0,006	-0,019	0,121(*)	-0,036	1	0,033	-0,071	0,019	-0,019	-0,013
	Sig. (2-tailed)	0,646	0,915	0,748	0,046	0,545		0,578	0,220	0,738	0,748	0,829
	N	301	301	299	271	292	301	294	301	301	301	301

		GENDER	EXPOS	EXPWORK	FIRM	LGTH	SERVICE	FEEAUD	DATE	RISK	CARE	LOC
FEEAUD	Pearson Correlation	0,087	-0,039	-0,024	0,079	-0,086	0,033	1	0,068	0,025	-0,009	0,053
	Sig. (2-tailed)	0,139	0,507	0,684	0,199	0,148	0,578		0,242	0,663	0,876	0,363
	N	294	294	292	264	285	294	299	299	299	299	299
DATE	Pearson Correlation	0,002	0,076	0,120(*)	-0,025	0,060	-0,071	0,068	1	-0,052	0,030	-0,005
	Sig. (2-tailed)	0,979	0,190	0,038	0,677	0,310	0,220	0,242		0,361	0,601	0,934
	N	301	301	299	271	292	301	299	306	306	306	306
RISK	Pearson Correlation	-0,074	0,219(**)	0,183(**)	0,042	0,089	0,019	0,025	-0,052	1	0,176(**)	0,140(*)
	Sig. (2-tailed)	0,202	0,000	0,001	0,493	0,131	0,738	0,663	0,361		0,002	0,014
	N	301	301	299	271	292	301	299	306	306	306	306
CARE	Pearson Correlation	-0,036	0,201(**)	0,213(**)	0,032	0,089	-0,019	-0,009	0,030	0,176(**)	1	0,139(*)
	Sig. (2-tailed)	0,536	0,000	0,000	0,598	0,128	0,748	0,876	0,601	0,002		0,015
	N	301	301	299	271	292	301	299	306	306	306	306
LOC	Pearson Correlation	-0,053	0,010	0,049	0,027	-0,038	-0,013	0,053	-0,005	0,140(*)	0,139(*)	1
	Sig. (2-tailed)	0,355	0,866	0,396	0,655	0,518	0,829	0,363	0,934	0,014	0,015	
	N	301	301	299	271	292	301	299	306	306	306	306

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Studies in economics and finance have shown that inexperienced managers take higher risks and that risk aversion increases with increases in experience (Graham, 1999; Li, 2002; Menkholf *et al.*, 2006). Therefore, the significant correlation of our Risk Aversion construct with the experience of our candidates is consistent with prior studies, which lends support to the nomological validity of the Risk Aversion construct.

The Ethics of Care variable does not correlate significantly with the overall relational preference measure ($r = -0,003$; $p = 0,957$); however, it does correlate significantly with two measurement items in the overall relational preference measure: Focpref1 ($r = 0,164$,

$p = 0,004$) and Solpref4 ($r = 0,132$, $p = 0,021$) (see Table 5.11, following chapter). Focpref1 measures the audit client's preference for the relationship to be more important than the actual audit service; and Solpref4 measures the audit client's preference for a long-term relationship. The Ethics of Care variable is a measure of Moral Reasoning with a focus on the importance of long-term relationships over contracts and universal rules (Gilligan, 1993). Therefore, the correlation of the Ethics of Care variable with two Relational Preference items lends support to the nomological validity of the Ethics of Care variable.

In addition to nomological validity, we tested for discriminate validity by correlating the six Ethics of Care items with the six Justice items. More precisely, we measured the audit client's Ethics of Care with a 12-item questionnaire (Appendix E); six of these twelve questions measured care, while the other six questions justice. We followed the same method as Liddell (1990) using the pen and pencil MMO method to measure the Ethics of Care. The six justice items were not theoretically expected to correlate with the six care items. Similar to Liddell (1990) the correlation analysis between the summed six-item care measure and summed six-item justice measure did not show positive correlation, lending support to discriminate validity ($r = -0,454$, $p = 0,000$) (Table 4.13).

Table 4.13
Care-Justice correlations

		CARENEW	JUST
CARENEW	Pearson Correlation	1	-0,454(**)
	Sig. (2-tailed)		0,000
	N	306	306
JUST	Pearson Correlation	-0,454(**)	1
	Sig. (2-tailed)	0,000	
	N	306	306

** Correlation is significant at the 0.01 level (2-tailed).

The results of the Locus of Control variable show our study's participants with an internal locus of control (significantly different from the midpoint; 4,84, which is 2,16 units below

the scale midpoint of 7,00). Past research has investigated managers' level of locus of control, and there is some evidence of higher-level employees showing internal locus of control (Forte, 2005). The explanation for this relationship is that individuals with high self-esteem and desire for job satisfaction (internal versus external) are more likely to be promoted to higher-level positions (Forte, 2005). We directed our survey to managers who manage their auditor relationships. The exact wording in our cover letter is "If you are not responsible for managing the relationship with your company's auditor would you kindly transfer this document to the individual that has this responsibility" (see Appendix A). In our demographic data questions, we did not ask for the exact position of our respondents. However, for a participant to manage a relationship with their auditor, their position would have to be high-level. The results of our study, showing respondents with an internal rather than external Locus of Control could be explained by the high-level position of our respondents, which is consistent with prior research (Forte, 2005), adding to the nomological validity of the Locus of Control variable.

To show additional nomological validity support, in Section 5.4, we present psychological tests that have shown positive correlations between an individual's Locus of Control and their level of Risk Aversion (Ekelund *et al.* 2005). The Locus of Control and Risk Aversion variables are positively correlated ($r = 0,143$ and $p = 0,012$) (further discussed in Section 5.4).

4.7 NORMALITY OF RELATIONAL PREFERENCE VARIABLE AND THE SECONDARY VARIABLES

We tested for the normality of our 18-item scale. Our single dimension scale (relpref) is normally distributed (K-S = 0,046, $p = 0,200$). In addition, we tested to see if our secondary data set fits a normal distribution. The results of our test of Normality show that all variables are normally distributed (Risk: K-S = 0,031, $p = 0,200$) (Care: K-S = 0,046, $p = 0,200$) except for the Locus of Control variable (K-S = 0,115, $p = 0,000$) (Table 4.14). We will use the parametric T-test to test the two normally distributed variables (Risk Aversion and Ethics of Care) and the non-parametric Wilcoxon rank-sum to test non-normally distributed variable (Locus of Control) recommended by Boslaugh and Watters (2008) and Field (2005).

Table 4.14
Tests of Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
RISK	0,031	285	0,200	0,994	285	0,301
CARE	0,046	285	0,200	0,992	285	0,155
LOC	0,115	285	0,000	0,966	285	0,000

* This is a lower bound of the true significance.
a Lilliefors Significance Correction

4.8 NON-RESPONDENT BIAS

Non-response bias is measured in different ways. Determining whether there is non-response rate bias is to determine how the overall results would have been different if non-respondents would have responded (Creswell, 2003). Certain methods to verify non-respondent bias were not possible such as contacting the non-respondents to determine if their answers were different from the respondents. Since respondents were assured anonymity, we do not know who responded and who did not respond. Another widely used method is based on the assumption that those who respond the latest are almost non-respondents (Creswell, 2003). Therefore, we have analyzed our data monthly, over a four-month period to see if there is a difference in the results. Since the majority of the questionnaires arrived in December 2008, we have separated our respondents in two groups: one group for December 2008 (77, 10%) and a second group for January-March, 2009 (22, 90%). To compare the means of the two groups we first tested to determine if the distribution of the reception of questionnaires was normally distributed. The distribution of questionnaires received over the period of December through March was not normally distributed with the majority of questionnaires received in December. We conducted the Kolmogorov-Smirnov test, which was highly significant, indicating that the distribution is not normal. Therefore, to test to see if the respondents in the first group (December) had significantly different results from the second group (January-March) we use the non-parametric Wilcoxon rank-sum test. We compare the results of our four variables of interest. For each of the four variables the means of the two groups are not significantly different: Relational Preference ($Z = -1,753$, $p = 0,080$), Risk

Aversion ($Z = -0,0850$, $p = 0,395$), Ethics of Care ($Z = -0,291$, $p = 0,779$), and Locus of Control ($Z = -0,060$, $p = 0,952$) (see Table 4.15). Therefore, we conclude that there is no late-response bias and therefore no non-response bias.

Table 4.15
Non-parametric test for non-response bias

	RELDPREF	RISK	CARE	LOC
Mann-Whitney U	7120,500	7707,500	8077,500	8221,000
Wilcoxon W	35086,500	10192,500	36043,500	10706,000
Z	-1,753	-0,850	-0,281	-0,060
Asymp. Sig. (2-tailed)	0,080	0,395	0,779	0,952

A. Grouping Variable: DATE

4.9 INFLUENCE OF CORPORATE AND PERSONAL INFORMATION ON MAIN VARIABLES

The Corporate and Personal information (demographic information) was separated into groups based on logical pre-established groups such as male (men)/female (women) for gender and big-four/non-big four for the audit firm. Other data were divided according to the median presented in Table 4.2. Other similar studies determined the influence of demographic data on their principle variables of interest by diving demographic data in groups separated by the median (Blanchette, 2001; Paulin *et al.*, 1997; 2000).

4.9.1 Gender

Basing their studies on Feminist theory, researchers have argued and empirically shown that gender influences the type of relationship between two individuals (Gilligan, 1993). However, empirical relational studies have shown no differences among female and male participants in regards to being relational or justice oriented (Pratt *et al.*, 2004; Skoe *et al.*, 1998; Skoe and Lippe, 2002). Therefore, we have controlled for gender by determining if there is a gender influence on the four variables of interest. The results are presented in Table 4.16. Consistent with past research, we did not find significant differences in the mean scores

controlled for gender. On a scale of 0-1585, the means for the Relational Preference (relpref) were 1098,30 for females and 1110,13 for males ($t = -0,602$, $p = 0,548$); the means for Risk Aversion (risk) were 650,91 for females and 613,79 for males ($t = 1,280$, $p = 0,202$); the means for Ethics of Care (care) were 563,38 for females and 549,80 for males ($t = 0,619$, $p = 0,536$); and finally, on a scale of 0-14, the means for the Locus of Control (loc) were 157,32 for females and 148,22 for males ($Z = -0,842$, $p = 0,400$). Therefore, we can conclude that gender does not influence our four variables of interest.

4.9.2 Experience in Position, Experience in Area of work and Time with Firm

The element of time is a critical factor in determining relational exchanges and transactional exchanges. Therefore, we collected data regarding the time duration that clients were in their current position, in their area of work, and the time they have been doing business with their audit firms. These three time control variables are shown in Table 4.16 and defined as Exp.Position (years), Exp.Area of work (years) and Time with firm (years). We measured to see if these three demographic variables significantly influence our four variables of interest. The influence of the number of years of experience in the area of work on our four variables was insignificant: for relpref: $t = 0,154$, $p = 0,878$; for risk: $t = 0,315$, $p = 0,753$; for care: $t = 0,719$, $p = 0,783$; and for loc: $Z = -0,949$, $p = 0,342$. The influence of the amount of time spent with their audit firm on the four variables was also insignificant: for relpref: $t = -0,957$, $p = 0,339$; for risk: $t = -1,514$, $p = 0,131$; for care: $t = -1,528$, $p = 0,128$; and for loc: $Z = -0,254$, $p = 0,799$.

The amount of time spent in the respondent's actual position had a slightly significant influence on the respondent's level of Risk Aversion. Respondents that have more than nine years of experience have a slightly higher level of Risk Aversion (mean = 647,74, scale 0-1585) versus the level of Risk Aversion for respondents that have less than nine years of experience (mean = 594,73, scale 0-1585). The difference between these two means is slightly significant ($t = -2,016$, $p = 0,045$). When differences are slightly significant using the T-test, it is recommended to calculate the effect size to see if the effect is important. To determine an effect size, the t-statistic is converted into a correlation coefficient (r), where $r = 0,10$ is a small effect, $r = 0,30$ is a medium effect, and $r = 0,50$ is a large effect (Field, 2005). The effect size of the influence of amount of time spent in the respondent's position

on Risk Aversion is $r = 0,0135$. The respondents years spent in their position explains 1,35% of the total Risk Aversion variable. Since the effect size is less than 10% it is considered a small effect (Field 2005); therefore, we will not control for this demographic variable.

4.9.3 Services

Relationship Marketing research has shown that customers that prefer relationships will tend to buy more services (Gronroos, 1997; 2000). Therefore, we separate our respondents into those that pay their auditor for mostly audit services (audit fees over 95%) and respondents that pay for other services (audit fees less than 95%) (Table 4.16). The reason we chose 95% to separate the participants was because 95% is the median percentage. Since we want to determine if there is an influence of services on our four variables of interest, the median provided a fairly equal number of participants in two groups. The percentage of fees paid to the auditor did not significantly influence our four variables: p values for relpref = 0,345; risk = 0,663; care = 0,876 and loc = 0,197. We asked respondents to indicate if they also used the Notice to Reader service instead of the Audit or Review Engagement service (Table 4.16). There were very few respondents (5/306=1,63%) and there were no significant difference in the results between the participants that used Notice to Reader services versus those participants who use the Audit or Review Engagement services: p values for relpref = 0,256; risk = 0,738; care = 0,748 and loc = 0,697.

4.9.4 Size of audit firm

Research in Relationship Marketing show that smaller suppliers are more relational, and larger suppliers are more transactional (Gummesson, 2002). Therefore, we have separated our respondents into big-four and non-big four firms (see Table 4.16). The type of firm did not significantly influence our four variables: p values for relpref = 0,535; risk = 0,493; care = 0,598; loc = 0,879.

Table 4.16
Comparison of the means of variables separated in function of demographic data.

Demographic Variable		relpref	Risk	care	Loc ²²
<u>Gender</u>					
Female N= 92	mean	1098,30	650,91	563,38	157.32
Male N=209	mean	1110,13	613,79	549,80	148.22
	Test	t = -0,602	t = 1,280	t = 0,619	Z=-0,842
	Significance	p = 0,548	p = 0,202	p = 0,536	p=0,400
<u>Exp.Position (years)</u>					
0-8 yrs N= 147	mean	1097,89	594,73	545,46	154.12
9 + yrs N=152	mean	1116,13	647,74	556,53	146.01
	Test	t = -1,002	t = -2,016	t = 0,558	Z = 0,,812
	Significance	p = 0,317	p = 0,045	p = 0,577	P = 0,414
<u>Exp. Area of work (years)</u>					
0-24 yrs N=135	mean	1107,12	627,40	553,98	143,86
25 + yrs N=162	mean	1104,31	619,01	548,45	153,29
	Test	t=0,154	t= 0,315	t=0,719	Z=-0,949
	Significance	p=0,878	p=0,753	p=0,783	p=0,342
<u>Time with firm (years)</u>					
0-9 yrs N=136	Mean	1097,92	603,51	538,14	147,83
9.5 + yrs N=156	Mean	1115,52	644,84	569,59	145,34
	Test	t=-0,957	t=-1,514	t=-1,528	Z=-0,254
	Significance	p=0,339	p=0,131	p=0,128	p=0,799
<u>Type of firm</u>					
Big 4 N=119	Mean	1104,20	617,38	550,08	135,19
Non-Big 4 N= 152	Mean	1115,92	637,29	561,59	136,63
	Test	t=-0,621	t=-0,687	t=-0,528	Z=-0,152
	Significance	p=0,535	p=0,493	P=0,598	p=0,879
<u>Service</u>					
Audit-Review N=296	Mean	1105,18	624,55	554,37	151,25
Notice N=5	Mean	1185,72	659,63	528,92	136,10
	Test	t=-1,138	t=-0,335	t=0,322	Z=-0,389
	Significance	p=0,256	p=0,738	p=0,748	p=0,697
<u>Fees Audit (Rev)</u>					
0-95% audit (rev) N=155	Mean	1115,90	621,68	553,00	143,83
95% plus audit (rev) N=144	Mean	1098,86	633,47	549,81	156,65
	T Value	t=0,945	t=-0,437	t=0,157	Z=-1,291
	Significance	p=0,345	p=0,663	p=0,876	p=0,197

To summarize, we tested the criteria necessary to summate a multi-item scale. The results of our analysis justified the summation of 18 items to arrive at a single mean score for the variable used to test H1: Relational Preference (relpref). Our measurement is consistent with other published research using similar relational dimensions, derived from the same conceptual framework. Our main variable (relpref) is normally distributed and meets the

²² The Locus of Control variable has a non-normal distribution therefore the Wilcoxon test was used to test for significant differences.

criteria for reliability and validity. Our three secondary variables are drawn from prior studies and have not been modified in our study. The levels of reliability and validity are satisfactory for all three variables. Risk Aversion and Ethics of Care are normally distributed but the Locus of Control variable is not. Therefore, we use a non-parametric test when testing the Locus of Control hypothesis. In addition, none of the Corporate and Personal information had any significant influence on the four variables of interest; therefore, we do not control for them in the following section.

CHAPTER V

ANALYSIS OF HYPOTHESES

In this chapter, we test our main hypothesis (H1) and our secondary hypotheses (H2, H3 and H4).

5.1 HYPOTHESIS 1

The main hypothesis of the study is that the audit client will prefer a more relational (RA) than transactional (TA) approach with their auditor (H1). The first 20 questions of our questionnaire were used to determine the respondent's relational preference. From the analysis conducted in the previous Chapter IV, we determined that 18 of the 20 questions are retained to test the main hypothesis and that the 18 items would be summated into a single mean score defined as the Relational Preference variable (relpref).

In addition, in the previous section, using the Kolmogorov-Smirnov Test, we determined that the distribution of our Relational Preference variable (relpref) was normal. Therefore, to verify H1 we use a dependent t-test (parametric test). In addition, to validate further our hypothesis we use the Wilcoxon signed rank test (the non-parametric equivalent of the dependent t-test). Even when data is normally distributed, when responses are measured using ordinal scales, the Wilcoxon test is recommended (Boslaugh and Watters, 2008; Field, 2005).

The scale used for the relational preference items has a range of 0 (Transactional) to 1585 (Relational), with a midpoint of 792,50. Therefore, for levels significantly greater than the 792,50 mid-point we conclude that the audit client's preference is more relational (RA) than

transactional (TA). For levels significantly less than the 792,50 midpoint we conclude that the audit client's preference is more transactional (TA) than relational (RA).

Other similar studies used scale midpoints as a point of reference for determining Relational (RA) or Transactional (TA) relationships. Elbakkali and Pilote (2004) investigated the auditor's relational preference with their clients and used a VAS scale mid-point to determine if the auditor used a more relational (RA) or transactional (TA) approach. Significant differences between respondent average scores and the scale midpoint were found using a T-test and a P-test. In addition, other studies that used similar relational measures used the scale midpoint to determine high or low levels of relationalism (Paulin *et al.*, 1997; 2000).

In 306 cases the single mean Relational Preference (relpref) score is 1108,40 units (on a scale of 0-1585). The minimum mean score is 559,44 units and the maximum mean score is 1553,61 units with a standard deviation of 156,56 units. Therefore, with a midpoint of 792,50 units and a mean score of 1108,40, we conduct a parametric paired-sample T-test to see if there is a significant difference between the mean single score and the midpoint on our VAS relational scale. The results of the test show that the Relational Preference mean score (1108,40) is significantly higher than the midpoint (792,50) ($t = 35,297$, $p = 0,000$).

We also conduct the non-parametric equivalent of the Paired Samples T-test using the Wilcoxon signed-rank test (SPSS). In 298 cases (out of a total of 306 cases) the relational preference mean score exceeded the relational preference midpoint (relpref > prefmid); and in 8 cases the relational preference mean score was below the relational preference (relpref < prefmid). The results of the Wilcoxon signed-rank shows that the Relational Preference variable (relpref) is significantly higher than the scale midpoint (relmid) ($Z = -15,020$ and $p = 0,000$).

The parametric and non-parametric tests show the audit client significantly prefers a more relational (RA) than transactional (TA) approach with their auditor (H1). We further test Hypothesis 1 by looking at the number of respondents which are above the scale midpoint (792,50) versus the number of respondents which are below the scale midpoint, as well as the number of participants which are very close to the scale midpoint (neither above nor below the midpoint). To determine the cases that are neither above nor below the midpoint

we calculate the precision interval: a method used in Auditing when determining the degree of precision in sampling (Cormier, 2003). The interval between two points is derived from the Poisson distribution (Boslaugh and Watters, 2008) using the following formula: Precision interval = (Total units of measure*Degree of Precision) / Confidence factor (Cormier, 2003, pg 65). The degree of precision is a pre-established level, which represents a presumption of sampling errors. In audit, sampling errors are set between 0% and 5%, with the maximum not usually exceeding 5%. We use the maximum 5% as the degree of precision in our calculation to be conservative. And 5% is often used as an approximation criterion for levels of significance, such as the Fisher's criterion (Field 2005; Hair *et al.*, 2006). We set the confidence factor at 95%, which is the typical level set in statistical analysis (Field, 2005). A confidence factor of 95% results in a confidence factor of 3 (Cormier, 2003). Using the formula for the Precision interval presented above, we determine the following precision interval: Precision interval= (1585 units * 5%)/3 = 26,42 units. Therefore, respondents that fall within the range of plus or minus 26,42 units from the midpoint (792,50) are considered neither relational (RA) nor transactional (TA) (792,50 ± 26,42). More precisely, respondents within the range of 766,08 - 818,92 are neither relational (RA) nor transactional (TA). The total mean scores of each of the 306 participants are shown in Appendix I.

Table 5.1²³
Classification of Relationship Preferences

Relational Preference Mean (relpref)	Frequency (N)	Percentage %
Transactional (559.44 – 766,08)	7	2.29%
Neither TA nor RA (766,08 – 818,92)	5	1,63%
Relational (818,92 – 1553.61)	294	96.08%
Total	306	100,00%

The results of the classification in Table 5.1 show that the vast majority of respondents fall into the category of clients who prefer a more Relational Approach (RA) with their auditor

²³ This classification is not meant to show statistical significance since the study's objective is not a cluster analysis; however, it is used to further support the parametric and non-parametric tests for H1.

(294/306 = 96,08%). The number of respondents who prefer a more Transactional approach with their auditor (TA) account for 2,29% (7/306) of the total sample; the respondents that are neither Relational (RA) nor Transactional (TA) account for 5 participants, 1,63% of the total sample (Table 5.1). To determine a statistical difference between the groups in respect to the number of participants, we test for significant differences among the three groups. We take the number of participants in each group and assign dichotomous data using 0-1 coding where participants are assigned the code 1, a method recommended by Boslaugh and Watters (2008). Therefore, we are able to calculate a group mean which is equivalent to the percentage of participants which fall in each group. The frequency percentages in Table 5.1 are equivalent to the means presented in Table 5.2. For the Transactional (TA) group there are 7 out of 306 respondents for a percentage of 2,29% (Table 5.1); therefore, a mean of 0,0229 (Table 5.2). For the Neither Transactional (TA) nor Relational (RA) group there are 5 out of 306 respondents for a percentage of 1,63% (Table 5.1); therefore, a mean of 0,0163 (Table 5.2). For the Relational group there are 294 out of 306 respondents for a percentage of 96,08% (Table 5.1), therefore a mean of 0,9608 (Table 5.2). We then compared the means of the three groups and the means were significantly different in all three, with the highest significance in the Relational group (RA): for TA, $t = 2,672$, $p = 0,008$; for Neither TA nor RA, $t = 2,251$, $p = 0,025$; and for RA, $t = 86,444$, $p = 0,000$ (Table 5.3).

Table 5.2
One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
TA	306	0,0229	0,14975	0,00856
NOTTARA	306	0,0163	0,12699	0,00726
RA	306	0,9608	0,19443	0,01111

Table 5.3
One-Sample Test

	Test Value = 0					
	t	df	Sig. (2- tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
TA	2,672	305	0,008	0,0229	0,0060	0,0397
NOTTARA	2,251	305	0,025	0,0163	0,0021	0,0306
RA	86,444	305	0,000	0,9608	0,9389	0,9827

These results show that the Relational (RA) group, with 294 of 306 participants, is significantly different than the Transactional (TA) group and the Neither Transactional nor Relational (NOTTARA) group. This analysis adds support to the parametric and non-parametric tests that confirm that the audit client prefers a more Relational Approach (RA) over a Transactional Approach (TA) with their auditor (H1).

Based on the parametric test (T-Test), the non-parametric test (Wilcoxon signed-rank) and the highly significant percentage of participants preferring a more Relational Approach (RA) with their auditor, we conclude that the audit client significantly prefers a more relational approach (RA) than a transactional approach (TA) with their auditor. Therefore, the main hypothesis (H1) is supported.

To understand further the clients' preferences for the relational approach we test the 18 individual factors of our Relational preference variable (relpref) to identify the different levels of each factor and to see if all factors are statistically different from the scale midpoint (relmid). The Paired Sample Tests of the 18 factors that make up the overall Relational Preference variable show factors that are statistically different from the midpoint. Of the 18 factors, three factors (Focpref2, Focpref3 and Rolpref3) are not significantly different from the midpoint (Focpref2, $t = 1,766$, $p = 0,078$) (Focpref3, $t = 0,589$, $p = 0,556$) (Rolpref3, $t = 1,283$, $p = 0,200$) (Table 5.4). The remaining 15 factors are significantly higher than the midpoint, all $p = 0,000$ (Table 5.4). These three factors, which are not significantly different from the scale midpoint will be discussed in the following Chapitre VI, Discussion. In

addition, in Table 5.5, the scale mean of each of the 18 factors along with a brief characteristic definition of each factor is presented. The individual factors, which warrant further discussion will be done so in the following Chapter VI, Discussion. The distributions of the 15 factors, which are significantly higher than the midpoint, are presented in Table 5.6.

The individual item, solpref3 (Arm's Length), was dropped from the single mean score because it did not meet the correlation requirements for a summated scale, as presented in the previous chapter. However, since the results of this item are relevant to the audit industry, we test its statistical significance in respect to the scale midpoint. The results show that the item, solpref3, has a mean score of 246, 37, which is significantly lower than the scale midpoint (792, 50) ($t = -28,564$, $p = 0,000$). The results of solpref3 will be discussed further in the following section Chapter VI, Discussion.

Table 5.4
Paired Samples Test (18 Items versus Midpoint)

		Paired Differences		Std. Error Mean	95% Confidence Interval of the Difference		t	Df	Sig. (2-tailed)
		Mean	Std. Deviation		Lower	Upper			
Pair 1	FOCPREF1 - RELMID	168,8889	386,20679	22,07797	125,4445	212,3333	7,650	305	0,000
Pair 2	FOCPREF2 - RELMID	43,9706	435,54578	24,89849	-5,0240	92,9652	1,766	305	0,078
Pair 3	FOCPREF3 - RELMID	14,5098	430,59391	24,61542	-33,9277	62,9473	0,589	305	0,556
Pair 4	SOLPREF1 - RELMID	445,7353	326,92706	18,68918	408,9593	482,5113	23,850	305	0,000
Pair 5	SOLPREF2 - RELMID	596,7647	177,51942	10,14811	576,7955	616,7339	58,806	305	0,000
Pair 6	SOLPREF4 - RELMID	438,9379	325,16839	18,58864	402,3597	475,5161	23,613	305	0,000
Pair 7	SOLPREF5 - RELMID	499,1013	339,62523	19,41508	460,8968	537,3058	25,707	305	0,000
Pair 8	SOLPREF6 - RELMID	506,0294	262,33153	14,99650	476,5197	535,5391	33,743	305	0,000
Pair 9	POWPREF1 - RELMID	462,7124	386,58302	22,09948	419,2257	506,1992	20,938	305	0,000
Pair 10	POWPREF2 - RELMID	295,1797	472,83606	27,03024	241,9904	348,3691	10,920	305	0,000
Pair 11	ROLPREF1 - RELMID	319,4281	442,13959	25,27544	269,6918	369,1644	12,638	305	0,000
Pair 12	ROLPREF2 - RELMID	263,1373	457,35035	26,14498	211,6899	314,5846	10,065	305	0,000
Pair 13	ROLPREF3 - RELMID	38,0229	518,24283	29,62597	-20,2743	96,3200	1,283	305	0,200
Pair 14	FLEPREF1 - RELMID	452,4346	289,41602	16,54481	419,8782	484,9911	27,346	305	0,000
Pair 15	FLEPREF2 - RELMID	340,0817	411,04609	23,49794	293,8431	386,3203	14,473	305	0,000
Pair 16	FLEPREF3 - RELMID	339,4935	349,10017	19,95673	300,2232	378,7638	17,011	305	0,000
Pair 17	MUTPREF1 - RELMID	177,8922	335,74484	19,19326	140,1242	215,6601	9,268	305	0,000
Pair 18	MUTPREF2 - RELMID	283,7908	340,60874	19,47131	245,4758	322,1059	14,575	305	0,000

Table 5.5
Relational Preference (18 item score)

Variable (item)	Valid N	Scale Range	Scale Mean	Characteristic
Focpref 1	306	0-1585	961,39	Audit service
Focpref2	306	0-1585	836,47	Audit service
Focpref3	306	0-1585	807,01	Audit service
Solpref1	306	0-1585	1238,24	Information sharing
Solpref2	306	0-1585	1389,26	Trust
Solpref4	306	0-1585	1231,44	Long-term relationship
Solpref5	306	0-1585	1291,60	One-shot dealings
Solpref6	306	0-1585	1298,53	Cooperation
Powpref1	306	0-1585	1255,21	Pressure tactics
Powpref2	306	0-1585	1087,68	Pressure tactics
Rolpref1	306	0-1585	1111,93	Expectations beyond audit
Rolpref2	306	0-1585	1055,64	Non-audit issues
Rolpref3	306	0-1585	830,52	Expectations audit service
Flepref1	306	0-1585	1244,93	Modifications
Flepref2	306	0-1585	1132,58	Renegotiable
Flepref3	306	0-1585	1131,99	Give and take
Mutpref1	306	0-1585	970,39	Help my auditor
Mutpref2	306	0-1585	1076,29	Costs and benefits
Relpref	306	0-1585	1108,40	

Table 5.6
Distribution of 15 factors significantly higher than midpoint.

Variable (item)	Valid N	Scale Range	Scale Mean	Characteristic
Focpref1	306	0-1585	961,39	Audit service
Solpref1	306	0-1585	1238,24	Information sharing
Solpref2	306	0-1585	1389,26	Trust
Solpref4	306	0-1585	1231,44	Long-term relationship
Solpref5	306	0-1585	1291,60	One-shot dealings
Solpref6	306	0-1585	1298,53	Cooperation
Powpref1	306	0-1585	1255,21	Pressure tactics
Powpref2	306	0-1585	1087,68	Pressure tactics
Rolpref1	306	0-1585	1111,93	Expectations beyond audit
Rolpref2	306	0-1585	1055,64	Non-audit issues
Flepref1	306	0-1585	1244,93	Modifications
Flepref2	306	0-1585	1132,58	Renegotiable
Flepref3	306	0-1585	1131,99	Give and take
Mutpref1	306	0-1585	970,39	Help my auditor
Mutpref2	306	0-1585	1076,29	Costs and benefits

When we look at the distribution of the individual factors that are significantly higher than the scale midpoint (presented in Table 5.6) there are items that require further investigation. For example, from an initial observation, the individual mean scores in the Solidarity dimension (Solpref1, Solpref2, Solpref4, Solpref5 and Solpref6) seem to be higher than other items that make up the other five dimensions. Therefore, by grouping the individual factors (items) into their predetermined dimensions, we notice certain differences worth noting. Other studies that used similar dimensions to arrive at a single mean score also calculated average scores at the dimension level (Rokkan *et al.*, 2003; Fink *et al.*, 2007). We present the distribution results of the six dimensions. When the 18 items are separated into their respective dimensions, each dimensional mean score is significantly higher than the midpoint ($p = 0,000$) (Table 5.7).

Table 5.7
Paired Samples Test (6 Dimensions versus Midpoint)

		Paired Differences		Std. Error Mean	95% Confidence Interval of the Difference		T	Df	Sig. (2-tailed)
		Mean	Std. Deviation		Lower	Upper			
Pair 1	SOLPREF - RELMID	497,3137	165,69006	9,47187	478,6752	515,9522	52,504	305	0,000
Pair 2	ROLPREF - RELMID	206,8627	381,97793	21,83623	163,8940	249,8315	9,473	305	0,000
Pair 3	FOCPREF - RELMID	75,7898	294,88073	16,85721	42,6186	108,9609	4,496	305	0,000
Pair 4	POWPREF - RELMID	378,9461	329,71568	18,84859	341,8563	416,0358	20,105	305	0,000
Pair 5	MUTPREF - RELMID	230,8415	240,21977	13,73245	203,8192	257,8638	16,810	305	0,000
Pair 6	FLEPREF - RELMID	377,3366	236,68827	13,53057	350,7115	403,9617	27,888	305	0,000

However, the dimensions vary in range. The Solidarity dimension, which represents cooperation, trust and information sharing is the highest dimension score (Scale Mean = 1289,81) (Table 5.9). In addition, the Focus dimensions which represents the importance of the relationship over service is the lowest score dimension (Table 5.9). Although each dimension is significantly greater than the midpoint, the different dimension scores indicate different client preferences based on different characteristics of the audit-client relationship.

In addition, we tested for the differences between each dimension. The results are presented in Table 5.8. All the dimensions were significantly different with the expectation of Role with Mutuality ($t = -0,989$, $p = 0,324$) and Power with Flexibility ($t = 0,073$, $p = 0,942$).

Table 5.8
Paired Samples Test (6 Dimensions versus Midpoint)

		Paired Differences		Std. Error Mean	95% Confidence Interval of the Difference		t	Df	Sig. (2-tailed)
		Mean	Std. Deviation		Lower	Upper			
Pair 1	SOLPREF - ROLPREF	290,4510	357,74717	20,45104	250,2080	330,6940	14,202	305	0,000
Pair 2	SOLPREF - FOCPPREF	421,5240	307,41408	17,57369	386,9429	456,1050	23,986	305	0,000
Pair 3	SOLPREF - POWPREF	118,3676	329,07496	18,81196	81,3500	155,3853	6,292	305	0,000
Pair 4	SOLPREF - MUTPREF	266,4722	252,02698	14,40742	238,1217	294,8228	18,495	305	0,000
Pair 5	SOLPREF - FLEPREF	119,9771	240,20018	13,73133	92,9570	146,9973	8,737	305	0,000
Pair 6	ROLPREF - FOCPPREF	131,0730	396,78944	22,68294	86,4381	175,7079	5,778	305	0,000
Pair 7	ROLPREF - POWPREF	-172,0833	453,72733	25,93787	-223,1231	-121,0435	-6,634	305	0,000
Pair 8	ROLPREF - MUTPREF	-23,9788	424,32868	24,25726	-71,7115	23,7540	-0,989	305	0,324
Pair 9	ROLPREF - FLEPREF	-170,4739	403,25360	23,05247	-215,8359	-125,1118	-7,395	305	0,000
Pair 10	FOCPREF - POWPREF	-303,1563	427,91036	24,46201	-351,2920	-255,0207	-12,393	305	0,000
Pair 11	FOCPREF - MUTPREF	-155,0517	348,87657	19,94395	-194,2969	-115,8066	-7,774	305	0,000
Pair 12	FOCPREF - FLEPREF	-301,5468	355,31546	20,31203	-341,5163	-261,5774	-14,846	305	0,000
Pair 13	POWPREF - MUTPREF	148,1046	415,01027	23,72456	101,4200	194,7891	6,243	305	0,000
Pair 14	POWPREF - FLEPREF	1,6095	387,00961	22,12387	-41,9253	45,1442	0,073	305	0,942
Pair 15	MUTPREF - FLEPREF	-146,4951	274,11057	15,66986	-177,3298	-115,6604	-9,349	305	0,000

Referring to Tables 5.7 and 5.8, the Solidarity item is significantly higher than the midpoint and significantly higher than the other five dimensions. On the other extreme, the Focus

dimension is significantly higher than the midpoint, yet it is significantly lower than the other five dimensions. Similarly, two pairs of dimensions that were not significantly different were Role-Mutuality and Power-Flexibility. It is not surprising to find similarity between the Power and Flexibility dimensions, since their definitions are similar. For example, in the Power dimension, items measured the client's willingness to exert pressure on the auditor; whereas, the items in the Flexibility dimension measured the client's willingness to be flexible with the auditor. The Focus dimension measures the auditor's preference to put the relationship with the auditor ahead of the actual audit service. These different dimensions scores will be further discussed in the following Chapter VI.

Table 5.9
Dimension scores

Dimension	Valid N	Scale Range	Scale Mean	Characteristic
Focus	306	0-1585	868,29	Relationship versus Service
Solidarity	306	0-1585	1289,81	Cooperation, Trust, and Information sharing
Power	306	0-1585	1171,45	Pressure tactics
Role	306	0-1585	999,36	Expectations beyond audit
Flexibility	306	0-1585	1169,84	Renegotiable
Mutuality	306	0-1585	1023,34	Costs and Benefits

Unlike Hypothesis 1, where we use an interdependent t-test and Wilcoxon test, for Hypothesis 2, 3 and 4 we are interested in determining a relationship between the three secondary variables (risk, care, loc) with the Relational Preference variable (relpref). The type of test to determine relationships depends on the distribution of the variable. The variables (risk, care), used to test Hypothesis 2 and Hypothesis 3, are normally distributed, therefore we use Pearson's correlation to test for a significant relationship. The variable (loc), used to test Hypothesis 4, is not normally distributed; therefore, we use the Spearman correlation coefficient, which is non-parametric statistic, recommended when data is non-normally distributed (Field, 2005). For Hypotheses 2, 3 and 4 we will present correlation coefficients. Values of $\pm 0,10$ are considered a small effect; values of $\pm 0,30$ are considered a medium effect; and values of $\pm 0,50$ are considered a large effect (Field, 2005; Hair *et al.*,

2006). We also test the three secondary variables (risk aversion, care, and locus) on each of the 18 individual factors of the Relational Preference variable.

In addition, for certain correlated variables, we extend our analysis to use multiple regression to test for predictive value, where theoretical justification exists. The multiple regression of variables is recommended as an extension to correlation analysis, but only to the extent that can be justified by theory or past research. Field (2005) warns against randomly putting collected data in regression analysis, looking for predictors and outcomes without theoretical justification.

5.2 HYPOTHESIS 2

In Hypothesis 2, we predict that the greater the audit client's Risk Aversion, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their auditor. The Risk Aversion of the questionnaire contained eight questions that were used to determine the respondent's level of Risk Aversion (risk). The respondent's Risk Aversion was measured on a scale of 0-1585 units. Respondents with scores that approach 0 units show low Risk Aversion; whereas, respondent's with score's that approach 1585 units show high Risk Aversion. The results show that out of 306 responses, the maximum score is 1322,50 units and the minimum score is 51,25 units with a mean of 626,98 units. With a scale midpoint of 792,50 units, the respondents with a mean score of 626,98 units (165,52 units below the scale midpoint) show significantly less than average Risk Aversion ($t = -12,365$, $p = 0,000$).

To test Hypothesis 2, we use the Pearson Correlation and the correlation between the client's Risk Aversion (risk) and the client's Relationship Preference (relpref) show a slightly negative relationship ($r = -0,104$). The correlation coefficient value of $r = -0,104$ represents a small effect; however, the results are not statistically significant at 0.05 ($p = 0,070$). It was hypothesized that clients with higher risk aversion would show a higher relational preference with their auditor. Therefore, the correlation results do not support Hypothesis 2 and, as a result, is rejected.

We also analyze the correlations of the Risk Aversion (risk) variable with each of the individual 18 Relational Preference factors.

Table 5.10
Risk aversion correlation with Relational Preference factors

Variables	Pearson Correlation	Significance
Focpref1-Risk	-0,109	0,056
Focpref2-Risk	-0,096	0,093
Focpref3-Risk	-0,072	0,210
Solpref1-Risk	0,031	0,583
Solpref2-Risk	-0,104	0,069
Solpref4-Risk	-0,016	0,776
Solpref5-Risk	-0,088	0,126
Solpref6-Risk	-0,065	0,258
Powpref1-Risk	0,051	0,377
Powpref2-Risk	0,090	0,114
Rolpref1-Risk	-0,049	0,396
Rolpref2-Risk	-0,070	0,220
Rolpref3-Risk	-0,090	0,115
Flepref1-Risk	0,002	0,973
Flepref2-Risk	-0,072	0,209
Flepref3-Risk	-0,053	0,355
Mutpref1-Risk	-0,064	0,262
Mutpref2-Risk	-0,029	0,615

Among the 18 factors that are correlated with the Risk Aversion variable, none is significant. In addition, even though we had predicted that Risk Aversion should be positively related to relational preference variables, 14 of the individual factors are negatively correlated, and four are positively correlated (Table 5.10).

When we tested the nomological validity of the Risk Aversion variable, we theoretical justified that risk aversion would be higher for employees that have spent more time in their position and their area of work (section 4.6). Therefore, using multiple regression, we test the predictive values of the experience of work and position on the outcome of risk aversion:

Equation 1: $\text{risk (i)} = b(0) + b(1) \text{ exppos} + b(2) \text{ expwork}$ (Table 5.15)

where:

risk = risk aversion

expwork = length of time in the area of work (years)

expos = length of time in the position (years)

The results show that the experience in years in both the audit client's position and area of work are small, yet significant predictors of risk aversion ($r = 0,219$, $p = 0,000$).

5.3 HYPOTHESIS 3

In Hypothesis 3, we predict that the greater the audit client's Ethics of Care, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their auditor. The questionnaire contained twelve questions, which were used to determine the respondent's level of Ethics of Care (care). Similar to the Relational Preference and Risk Aversion variables, the respondent's Ethics of Care was measured on a scale of 0-1585 units. Respondents with scores that approach 0 units show low Ethics of Care; whereas, respondents with scores that approach 1585 units show high Ethics of Care. The results show that out of 306 responses, the maximum score is 1196,67 units and the minimum score is 99,58 units with a mean of 551,39 units. With a scale midpoint of 792,50 units, the respondents with a mean score of 551,39 units (241,11 units below the scale midpoint) show significantly less than average Ethics of Care ($t = -23,959$, $p = 0,000$).

To test Hypothesis 3, we use the Pearson Correlation and the correlation between the client's Ethics of Care (care) and the client's Relationship Preference (relpref) show a very small correlation coefficient ($r = -0,003$), and the results are not statistically significant at 0,05 ($p = 0,957$). It was hypothesized that audit clients with a higher ethics of care would have a higher relational preference with their auditor. Therefore, the correlation results do not support Hypothesis 3 and, as a result, is rejected.

We also analyze the correlations of the Ethics of Care (care) variable with each of the individual 18 Relational Preference factors.

Table 5.11
Ethics of Care correlation with Relational Preference factors

Variables	Pearson Correlation	Significance
Focpref 1-Care	0,164*	0,004
Focpref2-Care	-0,038	0,506
Focpref3-Care	-0,038	0,513
Solpref1-Care	-0,013	0,816
Solpref2-Care	-0,063	0,273
Solpref4-Care	0,132**	0,021
Solpref5-Care	-0,112**	0,050
Solpref6-Care	-0,009	0,874
Powpref1-Care	-0,045	0,433
Powpref2-Care	0,023	0,685
Rolpref1-Care	-0,022	0,697
Rolpref2-Care	0,020	0,725
Rolpref3-Care	0,018	0,755
Flepref1-Care	-0,008	0,886
Flepref2-Care	0,004	0,945
Flepref3-Care	-0,044	0,442
Mutpref1-Care	-0,053	0,359
Mutpref2-Care	0,015	0,788

*Correlation is significant at the 0.01 level (2-tailed)

**Correlation is significant at the 0.05 level (2-tailed).

When the 18 Relational Preference factors are correlated with the Ethics of Care variable three of the 18 factors significantly correlate: Focpref1 and Care are positively correlated ($r = 0,164$, $p = 0,004$); Solpref4 and Care are positively correlated ($r = 0,132$, $p = 0,021$), and Solpref5 and Care are negatively correlated ($r = -0,112$, $p = 0,050$). The remaining 15 factors are consistent with the overall Hypothesis 3 results: the individual correlations are not significant (Table 5.11).

When we tested the nomological validity of the Ethics of Care variable, we theoretical justified that individuals with higher ethics of care would prefer a relationship over actual

service and would also prefer a willingness to pursue a long-term relationship (section 4.6). Therefore, we use simple regression to test the predictive values of ethics of care on the outcome of the two items: relationship focus and willingness to continue the relationship.

Equation 2: $focpref1(i) = b(0) + b(1)care$ (Table 5.15)

where:

$focpref1$ = relationship focus preference

$care$ = ethics of care variable

Equation 3: $solpref4(i) = b(0) + b(1)care$ (Table 5.15)

where:

$solpref4$ = willingness to continue the relationship

$care$ = ethics of care variable

The results show that the ethics of care slightly, yet significantly, predicts the audit client's preference for a relationship over the service ($r = 0,175$; $p = 0,002$) (Table 5.15) and the client's willingness to continue their relationship ($r = 0,129$; $p = 0,024$) (Table 5.15).

5.4 HYPOTHESIS 4

In Hypothesis 4, we predict that the more the audit client demonstrates internal Locus of Control, the more they will prefer a Relational Approach (RA) over a Transactional Approach (TA) with their auditor. The questionnaire contained seventeen questions, which were used to determine whether the respondent showed more of an internal or external Locus of Control (loc). The respondent's Locus of Control was measured as a score ranging from a minimum of 0 to a maximum of 14 points. Higher scores represent more external Locus of Control; whereas, lower scores represent more internal Locus of Control. The results show that out of 306 responses, the maximum score is 14 points and the minimum score is 0 points with a mean of 4,84 points. With a scale midpoint of 7 points, the respondents, with a mean score of 4,84 points (2,16 Points below the scale midpoint) show a significantly internal Locus of Control ($t = -14,794$, $p = 0,000$).

Since the distribution of Locus of Control was not normal, we use the Spearman's Correlation for the analysis. The results of the correlation between the client's Locus of Control (loc) and the client's Relationship Preference (relpref) show a very small correlation ($r = 0,013$), and the results are not statistically significant ($p = 0,815$). It was hypothesized that clients showing a more internal Locus of Control would have a higher Relational Preference with their auditor. Therefore, the correlation results do not support Hypothesis 4 and, as a result, is rejected.

We also analyze the correlations of the Locus of Control (loc) variable with each of the individual 18 Relational Preference factors.

Table 5.12
Locus of Control correlation with Relational Preference factors

Variables	Pearson Correlation	Significance
Focpref1-Loc	0,019	0,741
Focpref2-Loc	0,098	0,086
Focpref3-Loc	-0,008	0,893
Solpref1-Loc	0,016	0,780
Solpref2-Loc	0,052	0,368
Solpref4-Loc	0,029	0,613
Solpref5-Loc	0,009	0,870
Solpref6-Loc	0,099	0,084
Powpref1-Loc	0,046	0,426
Powpref2-Loc	-0,073	0,203
Rolpref1-Loc	-0,043	0,449
Rolpref2-Loc	0,001	0,988
Rolpref3-Loc	-0,037	0,525
Flepref1-Loc	0,125*	0,028
Flepref2-Loc	0,000	0,994
Flepref3-Loc	-0,045	0,435
Mutpref1-Loc	0,001	0,985
Mutpref2-Loc	0,060	0,293

*Correlation is significant at the 0.01 level (2-tailed)

When the 18 Relational Preference factors are correlated with the Locus of Control variable, one of the 18 factors significantly correlate: Flepref1 and Loc are positively correlated ($r = 0,125$, $p = 0,028$) (Table 5.12). The remaining 17 factors are consistent with the overall Hypothesis 4 results: the individual correlations are not significant (Table 5.12). We test for one more relationship with the Locus of Control variable that was not presented as a hypothesis²⁴. Some psychological tests have shown a positive correlation between Locus of Control and Risk Aversion (Ekelund *et al.*, 2005). The justification for this relationship is that individuals who are very aware of their own actions on outcomes (internal Locus of Control) might be more willing to accept risk (low Risk Aversion) (Ekelund *et al.*, 2005). Therefore, we tested for the relationship between Locus of Control and Risk Aversion; and the Spearman test results are significant ($r = 0,143$; $p = 0,012$). Respondents with a more external Locus of Control demonstrate higher Risk Aversion (or respondents with a more internal Locus of Control demonstrate lower Risk Aversion). This also supports nomological validity for both variables, as we demonstrated in Section 4.6.

Therefore, based on the correlations of the Risk Aversion variable with Locus of Control ($r = 0,143$; $p = 0,012$) and between Risk Aversion and the length of time in the client's position ($r = 0,219$; $p = 0,000$) and between Risk Aversion and the length of time in the area of work ($r = 0,183$; $p = 0,001$), we present a multiple regression model that is consistent with theory and past research.

Individuals that show an internal locus of control will tend to have lower levels of risk aversion. Therefore, individuals with an external locus of control should have higher levels of risk aversion. Moreover, individuals that have more experience in their employment should be more risk averse. Setting Risk Aversion (risk) as the outcome variable and Locus of Control variable along with the length of time in both the position and the area of work as the predictor variables, we establish the following regression model:

²⁴ We did not present the relationship between Locus of Control and Risk Aversion as a hypothesis due to the limited theoretical justification in the academic literature, with the exception of Ekelund *et al.*, 2005.

Equation 4: $\text{risk}(i) = b(0) + b(1)\text{locus of control} + b(2)\text{expwork} + b(3)\text{expos}$ (Table 5.15)

where:

risk = risk aversion

locus of control = internal or external locus of control

expwork = length of time in the area of work (years)

expos = length of time in the position (years)

Consistent with past research, our results show that the more the audit client demonstrates an external locus of control along with higher levels of experience in both work and position, the more they will be risk averse ($r = 0,263$; $p = 0,000$).

We summarize the validation of the four hypotheses: Hypothesis 1, 2, 3 and 4. Both the parametric and non-parametric tests showed significant support for the principle hypothesis (H1): audit client's s prefer a more relational approach (RA) over a transactional approach (TA) with their auditor. We add support for H1 by showing that the vast majority of the participants had mean scores significantly greater than the scale midpoint, and the number of participants in the Relational Approach (RA) group was significantly higher than the number of participants in the Transactional (TA) group and the Neither Relational nor Transactional group.

The results of the parametric correlation tests did not show significant support for the Hypothesis 2 and Hypothesis 3. The Risk Aversion and Ethics of Care variables do not significantly relate to the audit client's Relational Preference. Similarly, the results of the non-parametric correlation test did not show support for Hypothesis 4. The Locus of Control variable does not significantly relate to the audit client's Relational Preference.

Certain relationships with theoretical justification were analysed by correlation and regression analysis. The results of the simple and multiple regressions indicate three relationships, which extend beyond our four hypotheses. Firstly, clients' risk aversion increases as their years of experience (experience in their position and in their area of work) increase. Secondly, as an audit client demonstrates higher levels of ethics of care, they have a greater preference for a relationship and a higher willingness to continue their relationship. Thirdly, the locus of control and risk aversion variables showed small, yet significant

correlation. Past research has shown that individuals with an external locus of control will be more risk averse. Since the years of experience also correlated with risk aversion and justified with theory, we tested a multiple regression, where the predicting variables were locus of control, the length of experience in position, and the length of experience in area of work. The outcome variable is set as risk aversion. The results show that locus of control and the years of experience in position and area of work positively influence risk aversion.

The summary of the results are presented in Table 5.13, Table 5.14, and Table 5.15. In the following section, we present a discussion of the results.

Table 5.13
Mean Comparison for Primary Hypothesis (H1)

Method	Statistic	Significance (p)	Result
Paired T-Test	t = 35,297	p = 0,000	Accept
Wilcoxon Rank Test	Z = - 15,020	p = 0,000	Accept

Table 5.14
Correlation summary for Secondary Hypotheses (H2-H4)

Hypothesis	Independent Variable	Dependent Variable	Correlation Coefficient (r)	Significance (p)	Results
H2	Risk Aversion	Relational Pref	Pearson r= -0,104	p= 0,070	Reject
H3	Ethics of Care	Relational Pref	Pearson r= -0,003	p= 0,957	Reject
H4	Locus of Control	Relational Pref	Spearman r= -0,013	p= 0,815	Reject
Additional correlation	Locus of Control	Risk Aversion	Spearman r= 0,143	p= 0.012	

Table 5.15
Simple and multiple regressions

Equations	Independent Variables	Dependent Variables	Corr. Coeff.	Sign.	Results
(1)	Expos + Expwork	Risk Aversion	$r = 0,219$	$p = 0,000$	Sign.
(2)	Ethics of care	Relationship pref.	$r = 0,175$	$p = 0,002$	Sign.
(3)	Ethics of care	Willingness to continue	$r = 0,129$	$p = 0,024$	Sign.
(4)	Locus of Control + Expwork + Expos	Risk Aversion	$r = 0,263$	$p = 0,000$	Sign.

CHAPTER VI

DISCUSSION

This chapter presents a summary of the study and important conclusions of the data we presented in the previous Chapter V. We present our findings with reference to our review of literature and conceptual framework to determine theoretical and practical implications.

6.1 OBJECTIVE OF THE STUDY

The purpose of this study is an initial attempt at operationalising Relationship Marketing variables in order to measure the audit client's relationship preference with their financial auditors. It is important to know the client's preferred relationship approach as the auditor needs the cooperation of the client who provides important information for the year-end audit. In addition, the auditor needs to know the client's preferred relationship approach to align their Relationship Marketing strategy. Our secondary objective is to see the influences of three personality characteristics on the audit client's relational preferences with their auditor.

To achieve our study's objectives we reference the Marketing literature and we borrow variables, which allow us to measure the auditor-client relationship. The relationship between buyers and sellers has been theoretically defined and empirically tested in the Relationship Marketing literature (Fink *et al.*, 2007; Kaufmann and Dant, 1992; Macneil, 1980; Paulin *et al.*, 1997; Rokkan *et al.*, 2003).

We mailed a survey to 1090 private Canadian companies that had head offices in Canada with over 100 employees. Our survey questionnaire contained sixty-four questions that measured four multi-item variables: twenty questions were used to measure the client's

Relational Preference; eight questions were used to measure the client's Risk Aversion; twelve questions were used to measure the client's Ethics of Care; seventeen questions were used to measure the client's Locus of Control, and seven questions were used to measure the client's personal and corporate information. We received 306 completed returns, and the following is a summary of our findings.

When a buyer and seller are at arm's length, in a two-party relationship, there is typically an absence of trust, cooperation, sharing of information, and willingness to continue the relationship (Coviello *et al.*, 2000; Dwyer *et al.*, 1987; Gronroos, 1994; Gummesson, 2002; Morgan and Hunt, 1994). However, the findings in our survey lend support to a conceptual model that highlights the co-existence of an arm's length relationship along with trust, willingness to continue, cooperation, and information sharing which contradicts theory in the Relationship Marketing literature (see Figure 6.1)

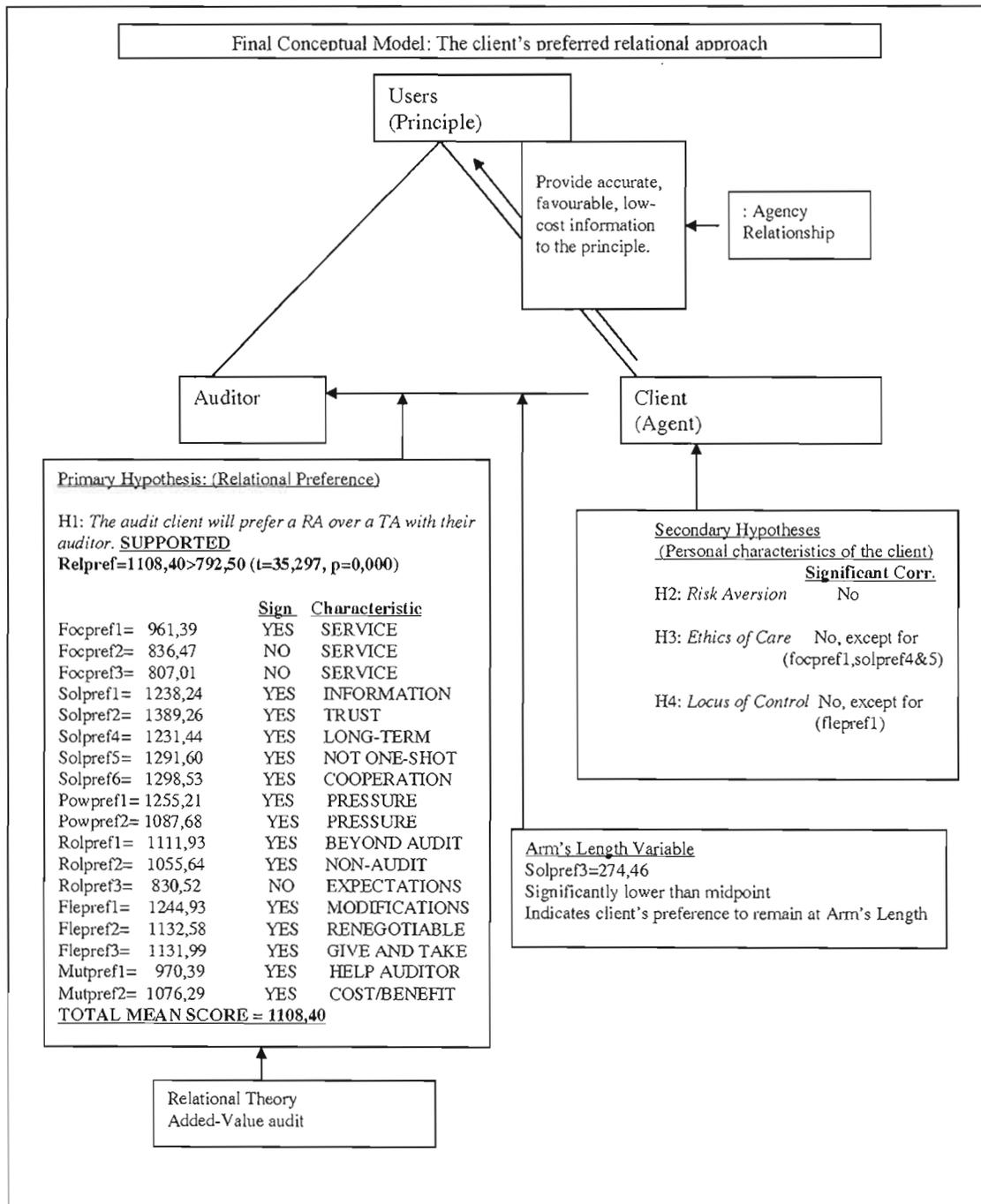


Figure 6.1 Final Conceptual Model: The client's preferred relational approach

6.2 RELATIONAL PREFERENCE FINDINGS (HYPOTHESIS 1)

We measured the audit client's relational preference using a multi-item measure (18 items). Each item is an individual characteristic of the overall Relational Preference construct, and each item partly defines the overall relational score. In this section, we discuss the results of the different items to be able to situate our results in the academic literature and in our conceptual framework²⁵. To increase clarity for the reader, we re-present the results of our eighteen items, with a definition beside each item name, along with the significance of each individual item score (Table 6.1).

Each one of our items that make up the total score has an average relational score on a scale from 0-1585. Scores closer to 1585 show a more Relational preference and scores closer to 0 show a more Transactional preference. Therefore, in our discussion, when we link our results with other research and theory we indicate the score on the 0-1585 scale in parenthesis, next to the name of the item (variable). This is done to help the reader follow our discussion.

²⁵ Other similar Relational studies discuss their individual item results that make up the overall relational scale to situate findings in published literature and conceptual frameworks (Ferguson *et al.*, 2005; Paulin *et al.*, 1997).

Table 6.1
Relational Preference (18 item score)

Variable (item)	Valid N	Scale Range	Scale Mean	Characteristic	Result
Focpref1	306	0-1585	961,39	Audit service	Significantly higher than midpoint
Focpref2	306	0-1585	836,47	Audit service	Not significantly higher than midpoint
Focpref3	306	0-1585	807,01	Audit service	Not significantly higher than midpoint
Solpref1	306	0-1585	1238,24	Information sharing	Significantly higher than midpoint
Solpref2	306	0-1585	1389,26	Trust	Significantly higher than midpoint
<i>Solpref3</i>	<i>306</i>	<i>0-1585</i>	<i>246,37²⁶</i>	<i>Arm's Length.</i>	<i>Significantly lower than midpoint. Not retained in overall score because of low correlation</i>
Solpref4	306	0-1585	1231,44	Long-term relationship	Significantly higher than midpoint
Solpref5	306	0-1585	1291,60	Not one-shot dealings	Significantly higher than midpoint
Solpref6	306	0-1585	1298,53	Cooperation	Significantly higher than midpoint
Powpref1	306	0-1585	1255,21	Pressure tactics	Significantly higher than midpoint
Powpref2	306	0-1585	1087,68	Pressure tactics	Significantly higher than midpoint
Rolpref1	306	0-1585	1111,93	Expectations beyond audit	Significantly higher than midpoint
Rolpref2	306	0-1585	1055,64	Non-audit issues	Significantly higher than midpoint
Rolpref3	306	0-1585	830,52	Expectations audit service	Not significantly higher than midpoint
Flepref1	306	0-1585	1244,93	Modifications	Significantly higher than midpoint
Flepref2	306	0-1585	1132,58	Renegotiable	Significantly higher than midpoint
Flepref3	306	0-1585	1131,99	Give and take	Significantly higher than midpoint
Mutpref1	306	0-1585	970,39	Help my auditor	Significantly higher than midpoint
Mutpref2	306	0-1585	1076,29	Costs and benefits	Significantly higher than midpoint
Relpref	306	0-1585	1108,40		

²⁶ This is a reverse item. The score of 274,46 represents a high preference for an arm's length relationship. This item is not included in the overall Relational Preference score. It was removed since it did not correlate positively with the overall score. We relist it here because the item score is important for our discussion.

In general, our findings suggest that audit clients prefer a more Relational approach (RA) than a Transactional approach (TA) with their auditor. The Relational Preference average score (relpref), made up of 18 individual items (factors), is 1108,40 units, significantly higher than the scale midpoint (792,50). Similar results were found from auditor partners surveyed in Quebec for their relationship preferences. Auditors in Quebec invest in a Relationship approach with their clients and the importance of future research to investigate the client's preferences was stressed (Elbakkali and Pilote, 2004; Pilote and Elbakkali, 2004). The importance of knowing the client's relational preference is due to resource allocation, necessary for audit firms when developing and maintaining relationships with their customers (Elbakkali and Pilote, 2004; Pilote and Elbakkali, 2004). The importance of matching suppliers' and buyers' marketing approaches is stressed in the marketing literature due to problems with mismatching (Pels *et al.*, 2000). If service suppliers allocate resources towards a relational approach when the client prefers a transactional approach, the supplier wastes resources (misallocate resources). If, on the other hand, the supplier decides to not allocate resources towards a relational approach and decides to deal transactionally with their clients when the client prefers a relational approach, this will lead to client dissatisfaction: the client expects a relational approach with their supplier yet are only treated transactionally. Therefore, our research results could help audit firms with their customer relationship strategy. In addition, the survey questions we used to obtain the client's preference could be a tool for audit firms to use if they want to measure objectively their clients' relational preferences. The concept of a relationship is not easily measurable because it could be defined many different ways. The results of this research provide, by way of a multi-item measure, an objective definition of what constitutes a relationship preference from the perspective of the audit client.

The foundation of our conceptual framework (Figure 6.1) is the auditor-client relationship as defined by audit standards (CICA, 2006). It is the presence of the 3rd party user which dictates the importance of the auditor and client to remain at a certain distance and to avoid familiarity (CICA, 2006), which we define as Arm's Length. This triadic relationship has given rise to theoretical models. Williamson (1975) argued that based on Transaction Cost

Analysis (TCA) and Opportunism the auditor is considered as an outsider and their motives are suspicious by the client; therefore, the auditor would receive little cooperation from the client. In addition, the audit service is described as routine and benefits a 3rd party user and not the paying client; therefore, the client perceives the service as unimportant (Goldman and Barlev, 1976). In the marketing literature when a service is perceived as routine and unimportant, the client will prefer a transactional approach with their service supplier (Berry, 1995; Gronroos, 2000; Pels *et al.*, 2000). However, in our conceptual framework, we argue that the audit service is important to the client and that they would prefer a relational approach. Our argument is based on agency models such as the Monitoring Hypothesis (Wallace, 1980) and the theory of added-value service (Beattie *et al.*, 2000; Gronroos, 1997). Our results support our conceptual framework. The client prefers a relational approach with their auditor, indicating the importance of the audit service that benefits the client.

To help better understand the general results of the Relational Preference single mean score (1108,40 units) we discuss the individual item (factor) results. Because each item (factor) represents an individual part of a Relationship, the individual item scores will give us more specific information regarding the audit client's relationship preference than just the overall average score and the dimensional scores. We do not present all the 18 items but rather only those that are important in respect to our research objective and conceptual framework.

Among the individual relational preference items that make up the 18 item single mean score, 15 are significantly higher than the midpoint, and 3 are above the midpoint but not significantly (Focpref2, Focpref3, Rolpref3) (Table 6.1). The highest scores that strengthen the single mean score are 5 items that make up the Solidarity dimension, with scores that all exceed 1200 units (Solpref1, 2, 4, 5, 6), along with one item in the Power dimension (Powpref1). Whereas, the lowest scores that weaken the single mean score are the items that make up the Focus dimension (Focpref2, 3) as well as an item in the Role dimension (Rolpref3). These results are consistent with the analysis of the six dimensions in the previous chapter. The Solidarity is the dimension with the highest score (over 1200 units) which strengthens the Relational Preference single mean score (relpref). Whereas, Focus is the dimension with the lowest score (under 900 units) which weakens the single mean score.

By relating our results to our literature review and conceptual framework, we further clarify our results.

In a commercial relationship, the exchange between two parties includes both service transactions as well as relationships (Kaufmann and Dant, 1992). The relationship Focus dimension has been conceptualized to determine if the relationship between a buyer and a seller is more important than the actual service transaction (Macneil, 1978; 1978). More precisely, in this study, we used three relationship Focus items (focpref1, focpref2 and focpref3) to determine if the relationship with the auditor is perceived by the client as more important than the audit service. The results show that one of the three items was significantly higher than the midpoint (focpref1 = 961,39), while the other two items were not (focpref2 = 836,47 and focpref3 = 807,01).

In the 1st relationship Focus item (folpref1) we asked the respondent if their relationship with their auditor plays a more important role than the audit service. The mean score for this item was significantly higher than the midpoint (focpref1=961,39) which indicates that for the audit client the relationship with their auditor plays a more important role than the audit service. However, the two other items in the relationship Focus dimension were not significantly greater than the midpoint (focpref2=836,47 and focpref3=807,01). These two items measured the importance of the relationship if dissatisfied with the audit service (focpref1), or if the relationship did not facilitate the audit service (focpref2). Therefore, the overall results of the three relationship Focus items are that the audit client prefers a relationship over the audit service but only to the extent that the relationship facilitates the service and that the service is satisfactory.

These results are consistent with Service Marketing theory where service quality is a minimum expectation of a customer and is the starting point of a buyer-seller relationship (Gronroos, 2000). In a large survey of audit customers who defected, it was found that the main reason the clients left the audit firms were due to relationship issues such as not being treated correctly (Dunn and Baker, 2003). However, it was also found that audit service quality was a basic expectation of the customer, referred to as a table stake (Dunn and Baker, 2003). In other words, relationship gains cannot make up for service quality issues. In a survey of audit clients in the Netherlands, based on the Morgan and Hunt's (1994)

Commitment-Trust model, service quality led to the client's willingness to continue with their audit firm (Ruyter and Wetzels, 1999). Therefore, the results of the relationship Focus dimension suggest the need for audit firms to invest in audit client relationships but not to expect to use the relationship to make up for poor service quality. In addition to the audit client's Relationship Focus, client cooperation is important.

Cooperation between buyers and sellers has been referred to as a core value of Relationship Marketing (Gummesson, 2002; Morgan and Hunt, 1994). The client's desire to cooperate with their auditor is an important element in the audit process, primarily due to information asymmetry in favor of the client: the client has information that the auditor requires to complete the audit (Ruyter and Wetzels, 1999; Kopp *et al.*, 2003). Cooperation was measured with the item, solpref6, where we asked the audit client for their preference for a cooperative effort. We defined a cooperative effort as "wanting or willing to work together with others". The cooperation score (solpref6 = 1298,53) was significantly higher than the midpoint (relmid = 792,5) and significantly higher than the Relational Preference average single score (relpref = 1108,40) ($t = 12,561$, $p = 0,000$). Similar research investigated the auditor's willingness to cooperate with their clients. Results showed that auditors had a high willingness to cooperate with their clients; however, when the audit partner was asked about their clients' willingness to cooperate, the partner perceived it as lower (Elbakkali and Pilote, 2004; Pilote and Elbakkali, 2004). These authors requested further research to investigate the client's willingness to cooperate with their audit partner. In response to their request, our findings suggest that audit clients do prefer to cooperate highly with their auditor. Similarly, audit clients were surveyed to investigate what motivates them to continue their relationship with an audit firm and the findings showed a positive relationship between relationship commitment and cooperation as perceived by the audit client (Ruyter and Wetzels, 1999). In addition, in Marketing research, Morgan and Hunt (1994) showed a positive relationship between relationship commitment and cooperation.

In our conceptual framework (Figure 6.1) we had predicted that the client's willingness to cooperate with their auditor would be high, since client cooperation would help the audit process. The client would want to facilitate the audit process because the client wants to provide accurate, low cost information to the principle (Agency Relationship). By

cooperating with the auditor, the client facilitates the audit process, which should help to provide the necessary low cost and accurate information to the third party user (principle) Figure 6.1). The results of the present study are in agreement with the theoretical basis of our framework.

Moreover, in our Conceptual model (Figure 6.1), we had predicted a client preference for a high level of Trust with their auditor. In accordance with our framework, our results show that clients prefer a high level of Trust with their auditor (solpref2 = 1389,26). This score was significantly higher than the scale midpoint and is the highest of the all the 18 item scores. Similar to Cooperation, due to information asymmetry, Trust between auditors and clients is important, for auditors to gain accurate information from audit clients (Kopp *et al.*, 2003).

Similar to preferring Trust and Cooperation, the audit client wants Information from the auditor (solpref1 = 1238,24), which includes non-audit issues (rolpref1 = 1111,93 and rolpref2 = 1055,64). These results are consistent with audit client surveys showing audit clients' desire for an added-value audit, including compliance-related advice and management letter advice on procedures (Beattie *et al.*, 2000).

In traditional buyer-seller relationships, Relational Approaches (RA) between two parties, are also defined with high levels of Trust, Cooperation and Information sharing (as in our study). However, in traditional buyer-seller relationships, Relational Approaches (RA) are not defined with an Arm's Length approach (Gronroos, 1994; 2000; Gummesson, 2002).

It is the Arm's Length item (solpref3) that differentiates the auditor-client relationship from the traditional buyer-seller relationship, as defined in our conceptual framework. We defined the Arm's Length item (solpref3) in our questionnaire as "relating in such a way as to avoid familiarity and prevent direct influence by any of the parties over the other or others." We had predicted that the client would show preference for an Arm's Length relationship with their auditor and our survey results confirm our prediction (solpref3 = 246,37). The solpref3 item was significantly lower than the scale midpoint, and which was not included in the overall mean score, as required for a summated scale (Hair *et al.*, 2006).

The reason for the Arm's Length requirement in the auditor-client relationship is primarily due to the presence of a third party User (CICA 2006). The presence of the third party User

gives rise to the accountability to the third party and the necessity for the auditor and the client to remain at Arm's Length, to avoid familiarity (CICA 2006). The triadic relationship of the auditor, client, and third party User is defined in the Canadian Auditing Standards, and is the basis for our Conceptual Model (Figure 2.2). The traditional buyer-seller relationship, without the presence of a 3rd Party, does not include an Arm's Length requirement (Figure 2.1).

It is important for the client to recognize the importance of the auditor's requirement to remain at Arm's Length. In the audit literature there is concern that having a close relationship, where the auditor and client work together cooperatively and share information, impedes the auditor from remaining at Arm's Length: the auditor acquiesces to the demands of the client in fear of losing the client (Kleinman and Palmon, 2000). In addition, an overly trusting relationship has been suggested to threaten professional skepticism and independence (Kopp *et al.*, 2003). Kleinman and Palmon (2000) recommend that both the auditor and the client be aware of the auditor's responsibilities (Kleinman and Palmon, 2000). Our study confirms that the audit client is aware and prefers the auditor's responsibilities to remain at Arm's Length. Therefore, there should be less pressure from the client, since the Arm's Length regulation is understood and respected. Our results should help clarify some of the questions related to auditor independence.

Other findings in our study relate to auditor-client negotiations. Gibbens *et al.* (2005), in a survey study, found that CFOs and audit partners prefer winning a negotiation, where the client uses pressure, and the negotiation with the audit firm ends with a distributive outcome (where the client wins and the auditor loses). These authors claim that their findings differ from the negotiation literature, where parties desire win-win outcomes. Our findings suggest that the client prefers not using pressure tactics to influence the auditor (powpref1 = 1255,21), as well as preferring a cooperative (win-win) relationship (solpref6 = 1298,53). Our findings are consistent with Beattie *et al.* (2000; 2004), where it was empirically found that audit clients desired a more cooperative (win-win) relationship, and our results contradict the conclusions of Gibbens *et al.*, 2005. Also, our results meet the request for further evidence of the client's perspective on the auditor-client's negotiation, as

the negotiation between the auditor and the client has an impact on the financial statements (Gibbens *et al.*, 2001; Iyer and Rama, 2004).

We also measured the flexibility of the customer. The results suggest that the client prefers being flexible and prefers a give and take strategy with their auditor (flepref3 = 1131, 99). The findings are consistent with other auditor negotiations research that found that clients are more flexible than auditors are when faced with a conflict situation (Bame-Aldred and Kida 2007).

Theoretical models have presented the audit service as a routine, commodity like service subject to the downward pressure of prices (Williamson, 1975). Models show that the audit service does not benefit the client; therefore, the audit is perceived as unimportant (Goldman and Barlev, 1974; Nichols and Price, 1976). Therefore, given the commodity like service and unimportance of the audit for the client, the client should prefer a more Transactional approach with their auditor (Pels *et al.*, 2000). However, we based our hypothesis on the theory that showed the importance of the audit service for the client based on agency theory.

The agency relationship explains that the agent (client) is the source of auditing and that the agent demands the audit to protect against lower wages and chooses the independent auditor to provide the assurance of accuracy (Jensen and Meckling, 1976; Wallace, 1980). Therefore, we argue that the client perceives the audit as an important, unique, and valued added service. Our findings support our argument that the client sees the auditor as a source of information (solpref1=1238,24), and has expectations from auditors that go beyond the audit services (rolpref1=1111,93).

Our results are consistent with Beattie *et al.* (2000) and Eilifsen *et al.* (2001) who argue that the value of the auditor is the added-value service beyond the core audit service, which results in cooperative efforts from the customer. Beattie *et al.* (2000) found that clients desire, from their auditors, such services as guidance on accounting principles, advice on internal controls, and general business advice.

Goldman and Barlev (1974) conceptualize the concept of the balance of power. Since the audit client does not perceive the audit as important, the power is in the hands of the client and therefore the auditor is dependent on the client. Relationship Marketing literature shows that power hurts relationship success between two parties, and only in the absence of power

can there be the presence of commitment and trust (Morgan and Hunt, 1994). Similarly, our findings suggest that the audit client prefers not to use power tactics to influence the auditor. It has been theorized that the audit client possesses the power over the auditor because of the client's ability to hire and fire the auditor (Goldman and Barlev, 1974). This level of power which the client possesses is used to explain the auditor's inability to remain independent (Kleinman and Palmon, 2001). In contrast to this theory of power in the hands of the client, our results show, based on two items which measured the client's desire to exert power on the auditor, that the audit client does not prefer using power over the auditor (powpref1 = 1255,21 and powpref2 = 1087,60).

6.3 SECONDARY VARIABLE FINDINGS (HYPOTHESES 2, 3, 4)

6.3.1 Risk Aversion (Hypothesis 2)

Our second hypothesis is that clients that are more risk adverse would prefer a more RA. This hypothesis was based on the risk adverse client seeking out security by forming a close relationship with other parties. This hypothesis was not supported. The average audit client in our sample showed low risk aversion (risk = 624,98). The Risk aversion variable did not correlate with the single mean score of the Relational Preference. In addition, the risk aversion variable did not correlate with any of the 18 individual factors that make up the single mean relational score.

Hypothesis 2 was based on studies in marketing that show risk perception affecting buying decisions (Bao *et al.*, 2003; Shrimp and Barden, 1982). The greater the perceived risk, the greater will be the client's desire to seek security and engage in a RA with their supplier (Sheth and Parvatiyar, 1995). Very little research in accounting, to our knowledge, has attempted to measure the risk aversion of accounting managers in companies. However, some research has found that accounting managers with traits of high-risk aversion search out security and create greater budget slack (Waller, 1988; Young, 1985 cited by Blanchette, 2001).

Therefore, based on this research in marketing and accounting we predicted a positive relationship between the audit clients risk aversion and relational preference. We thought that clients with higher risk aversion would search out security by forming a more Relational

rather than Transactional approach with their clients. However, our prediction was not supported with our empirical evidence.

To our knowledge, there is not enough empirical research in risk aversion and audit client behavior to help explain our results. However, we do offer the following possible explanation. The Relationship Marketing literature we cited did not measure the buyer's general assessment of risk, as we did, but rather the assessment of risk related to the actual purchase. Services that offer information, knowledge, and expertise, and which are heterogeneous with high switching costs are perceived as risky and should promote a more Relational Approach by buyers (Sheth and Parvatiyar, 2000). Examples of high-risk services are Life Insurance services and Law services versus low risk services such as Cable television and Telephone services. Therefore, to compare our results to previous marketing literature results we could have measured the specific perceived risk of the audit service instead of the client's general overall risk aversion. Future research should measure the audit's client specific perception of risk in respect to the audit service.

6.3.2 Ethics of Care (Hypothesis 3)

The results of the Ethics of Care hypothesis are surprising. We hypothesized that the more an audit client showed a higher level of care the higher would be their preference for a RA. This hypothesis was not supported. The mean score for the audit client's Ethics of Care is 551,39 on a scale of 0-1585. The level of 551,39 is significantly below the scale midpoint of 792.50. Therefore, the average audit client demonstrates low Ethics of Care, yet prefers a more RA (relpref=1108, 40).

One possible explanation for the Ethics of Care low mean score could be our measurement method. Gilligan's Ethics of Care model was operationalized using the Skoe's Ethic of Care Interview (ECI) (Skoe and Lippe, 2002). Similar to the Heinz dilemma, developed by Kohlberg (Gilligan, 1983), the ECI consists of dilemmas that are administered using structured interviews. Since we used a mail questionnaire to collect our data, we had to find another way to measure the Ethics of Care variable. The only other study that we found to measure the Ethics of Care, with a self-administered method, appropriate for our study was a 12 self-description item method by Liddel (1990). In the 12-item questionnaire, we are able to identify if clients showed more of a care preference or more of a justice approach.

Therefore, we had predicted that there would be a relationship between the level of care and the relational preference.

We would have liked to use the ECI. We had originally developed our hypothesis based on the ECI. We conceptualized our hypothesis based on the three levels of the ECI. As people move from Level 1 to Level 3 they move from little care for others (Level 1) to focusing on others (Level 2) to finally focusing on cooperative relationships (Level 3). We argued that moving from Level 1 to Level 3 is similar to moving from a transactional approach (TA) to a relational approach (RA). Not using the ECI could have weakened our measure of the Ethics of Care variable. Using the ECI would require conducting face to face interviews, which should be part of future research.

However, when we look at the correlation between the individual 18 relational factors and the Ethics of Care variable, three of the 18 factors show significant correlations. The relational variables that were significant were focpref1, solpref4 and solpref5. More precisely, focpref1 represents the audit client's preference for a relationship in respect to the audit service (focpref1). The solpref4 and solpref5 items relate to the audit client's preference for a long-term venture (solpref4) and not a series of one-time dealings (solpref5). This is consistent with the Ethics of Care literature. Moral Reasoning, as defined by the Ethics of Care theory, is seeing a dilemma, not as a short-term problem, but rather a series of relationships that extends over time (Gilligan, 1993). Moreover, Reiter (1996; 1997) has stressed the importance of using the care perspective rather than the justice model since the Ethics of Care perspective helps accountants view professional judgment as a set of embedded relationships rather than a set of independent, discrete dealings. Even though the overall relational score (relpref = 1108,40) does not significantly correlate with the Ethics of Care variable (care = 551,39), the 3 individual relational factors that do correlate significantly with the Ethics of Care variable are consistent with prior literature on Moral Reasoning using the Ethics of Care perspective.

One of the results of the Ethics of Care analysis, as presented in our preliminary analysis, is that no differences were found for levels of Care when controlled for women (30,60%) and men (69,40%) in our sample. Our results contradict the findings of Gilligan (1993) who found that men are oriented towards autonomy and universal principles (Less Care and more

Justice); whereas, women are more focused on relationships (Care). Our results support other studies, which have shown no differences between men and women when using Gilligan's Ethics of Care theory (Reiter, 1996; Vikan *et al.*, 2005).

6.3.3 Locus of Control (Hypothesis 4)

We hypothesized that audit clients who show more of an internal Locus of Control, would prefer a more RA with their auditors. Our correlation results did not show a significant result between the Locus of Control and the client's relationship preference; therefore, our Hypothesis 4 was not supported. We predicted a relationship between the client's Relational Preference and the client's level of Locus of Control based on Tsui and Gul (1996) who found that auditors with internal Locus of Control were more likely to cooperate and less likely to accommodate since they feel personally responsible. In addition, Boone *et al.* (1999) showed that during repeated games, participants who showed more internal than external Locus of Control learn that cooperation is the winning strategy.

However, our results did show that the single mean score for 306 respondents was 4,84 on a scale of 0-14. This single mean score is significantly below the scale midpoint (7) which represents an internal Locus of Control for our average respondent.

There are alternative explanations in the literature that show externals more cooperative than internals. Wall (1977) cites Bobbitt (1967) who found, in Prisoner Dilemma games, that internals were more cooperative when playing competitive opponents. In the same games, externals were more cooperative when playing cooperative opponents (Wall, 1977, citing Bobbitt, 1967). The explanation for these findings is that internals bargain more competitively when faced with cooperative opponents. Whereas, when faced with competitive opponents, internals cooperate to encourage the opponent to cooperate (Wall, 1977).

Even though our Hypothesis 4 is not supported in respect to the correlation results, we can conclude that, on average, our respondents show a more internal Locus of Control, which we had predicted.

When we correlate the 18 individual relational factors with the Locus of Control variable the only factor that is significantly correlated is flepref1 ($r = 0,125$; $p = 0,028$). This is a positive

relationship, but we had predicted a negative relationship. We predicted that clients who had an internal Locus of Control (low score) would prefer a more Relational Approach (high score). Fleprefl indicates the level of flexibility the client desires such as, if circumstance change, how easily can modifications be made to the agreement. Therefore, the results indicate that clients who have a more external Locus of Control would prefer flexibility with their auditor. Contrary to our prediction, one explanation could be externals rely more on others, rather than themselves (Boone *et al.*, 1999). If circumstances change, externals could prefer that the auditor be willing to make modifications.

6.4 PERSONAL AND CORPORATE FINDINGS

6.4.1 Gender

69,40 % of respondents were male versus 30,60% who were female. The Relational Preference was not significantly different for females versus males. Moreover, the secondary variables were not different when controlled for gender. Feminist theory has been used to justify that gender influences the type of relationship between two parties (Gilligan, 1993). However, the results of our study contradict Feminist theory and our results are consistent with other empirical results, which have noted no gender differences in relationship studies (Pratt *et al.*, 2004; Reiter, 1996; Skoe *et al.*, 1998)

6.4.2 Audit Services

The companies in our sample are all private. For private companies, there are no regulatory requirements for an audit and the demand for audit is primarily a discretionary choice (Abdel-Khalik, 1993). In the absence of regulatory requirements and the higher fee for audit (high assurance) versus the fee for a review (medium assurance), there would have to be perceived value for an audit, by private companies. It has been argued that, in private companies, audited financial statements add value to companies by playing a role in the evaluation of managerial performance due to the lack of market measures of firm value (Chaney *et al.*, 2004). Abdel-Khalik (1993) argues that private companies voluntarily import monitoring systems by hiring independent auditors that give owners assurance. Consistent with this research, which shows the value of audit for private firms, 90% of the private companies in our sample had audits (high assurance).

6.4.3 Time with audit firm

The time that audit clients, in our sample, spend with their audit firm was long (11,27 years). The length of time spent with the firm had no relationship with the audit client's Relational preference. In the Relationship Marketing literature the time spent with a supplier is mostly measured in willingness to continue the relationship and not actual years (Rokkan *et al.*, 2003). Therefore, it is not surprising to see that in our study the time spent with the audit firm does not correlate with the client's Relational preference. However, for our time variable, where we ask the audit client about their willingness to continue with their auditor, the result was highly Relational (solpref4 = 1231.44). Rokkan *et al.* (2003) empirically showed that when interactions between two parties included the willingness to continue together (measured in expected time horizon) the two parties demonstrated more long-term bonding and less opportunism. The willingness to continue is also referred to as an expectation of future interaction, demonstrated by the repeated games experiments based on the prisoner's dilemma theory (Rokkan *et al.*, 2003). In repeated games, the player that does not cooperate with the other will be punished in future games due to reciprocity. Therefore, it is in the best interest for both parties to cooperate if they are willing to continue together (Rokkan *et al.*, 2003). Our results are consistent with the theory of repeated games, as the actual time is not related to the client's relational approach; whereas, the willingness to continue measured by the solpref4 variable was significantly relational.

6.4.4 Type of Firm

Big-4 auditors are hired in over 80% of publicly listed firms (Chaney *et al.*, 2004). We wanted an equal representation of both Big-4 and non Big-4 auditors to identify possible differences in relationships (one of the reasons we set privately listed companies as a criterium). The results of our study produced an equal representation of both Big-4 and non Big-4 audit firms (43,90% of Big-4 firms and 56,10% non Big-4 firms). No relationship preference differences were highlighted for clients dealing with Big-4 auditors versus those that deal with non Big-4 firms. Clients preferred a relational approach with both Big-4 and non Big-4 firms. These results are consistent with Relationship Marketing theories, which explain how both small and large service firms can promote relational approaches with their customers. Some theory shows that small service firms are more customer-oriented than big

service firms because they are able to make decisions quickly and are closer to the market (Gronroos, 2003). However, other theory explains that bigger service firms have more resources than smaller firms enabling them to invest in relationships with their customers (Gronroos, 1994; Gummesson, 2002). Therefore, our results are consistent with results in the marketing literature that shows that both large and small firms can be relational with their customers.

CHAPTER VII

CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

This chapter presents a final discussion along with the study's limitations and our recommendation for future research.

7.1 CONCLUSION

The principle objective of our study was to determine the audit client's relationship preference with their financial auditor. Results of our study show that clients significantly prefer a Relational Approach (RA) rather than a Transactional Approach (TA) with their financial auditor.

In respect to the 18 individual items and 6 dimensions, we found results that are more precise. The audit client's preference for Trust with their auditor, part of the Solidarity dimension, was the highest scoring item. Audit standards require auditors to be professionally sceptical regarding client management (CICA, 2006, 5090.08), but at the same time auditors need to trust the information that clients provide, due to information asymmetry in favour of the client (Kopp *et al.*, 2003). The auditor is considered to be in constant conflict between having to exercise professional scepticism and at same time to not assume client dishonesty (CICA 2006 5090.08; Kopp *et al.*, 2003). By knowing that the client has a very high preference for a trusting relationship, could help the auditor manage their conflict between trust and professional scepticism.

Along with Trust, Cooperation and Power (the restraint of Power to influence) are also among the highest individual scoring items. These results are consistent with an important Relationship Marketing buyer-seller theory: Morgan and Hunt's (1994) Commitment-Trust model. This model empirical shows the importance of Cooperation, Trust, and a restraint of Power to assure relationship success.

Not only does the client respect the importance of a trusting relationship, they also respect the auditor's necessity to maintain the relationship at arm's length. This finding is an

important contribution in our study, both theoretically and practically. Practically, many of the pressures that infringe upon auditor independence have been the auditor acquiescence towards client demands. By clients demonstrating their preference to remain distant, shows the clients respect for auditors' ethical obligations. Audit Standard setters would be interested in knowing that clients respect auditors' ethical standards to remain distant.

Theoretically, buyer-seller relationships in the Marketing literature have defined Transactional (TA) relationships as Arm Length relationships. Some researches have even argued that an important definition of transactional approach is remaining at arm's length; whereas, the relational approach (opposing end of the continuum) is defined as cooperative (Ferguson *et al.*, 2005). No buyer-seller relationship, to our knowledge, is Relational (RA), with the presence of cooperation, trust, and the willingness to continue, and at the same time conducted at arm's length. We provide an original relationship framework for the Marketing domain. Our new conceptual framework, which is a triadic relationship, shows a buyer-seller relationship with a third party influence. This third party influence creates a buyer-seller RA, with attributes such as cooperation, trust, lack of power, information sharing, willingness to continue, while at the same time remaining at arm's length.

In addition, Power, exercised by clients, has been considered a factor in the threat to auditor independence. The use of Power by the client has also been blamed as a tactic used by clients to influence auditors, when negotiating over financial statement issues. Our findings suggest that clients do not desire exercising power to influence the auditor. Our results are also consistent with Relationship Marketing studies that have shown that the use of power can have negative effects on buyer-seller relationships (Ganesan, 1994; Morgan and Hunt, 1994).

Our secondary results do not show significant relationships between certain personal characteristics and the audit client's relational preferences as hypothesized. However, other relationships with our secondary variables show some interesting results. We had thought that clients that prefer a more RA would be more Risk Averse, as they would use the relationship to reduce uncertainty, as was argued in prior research. However, we did find that Risk Aversion was higher for employees that have spent more time in their employment or area of employment, which is consistent with past research.

The Locus of Control variable did not significantly correlate with the client's relational preference, yet when grouped with the audit client's amount of experience, we found a significantly positive relationship with Risk aversion. Consistent with past research, the more clients show external Locus of Control, and the longer they have stayed in a position or area of work, the higher will be their level of Risk Aversion.

Finally, clients that showed a higher level of ethics of care did not significantly prefer an RA with their auditor, as hypothesized. However, the ethics of care variable did show a small, but significant, relationship with two RA items: the preference for a relationship and the willingness to continue the relationship.

7.2 LIMITATIONS OF THE STUDY

Our study has certain limitations. Firstly, we used a convenience sample for our survey, which is recommended for studies with pre-established criteria (Babbie *et al.*, 2002). We used a list of English speaking, Canadian private companies with over 100 employees. This was the criteria necessary for us to answer our research question. Therefore, generalizing our results to explain the overall preferences of audit clients would have to be done with respect to our particular sample criteria.

The definition of a relationship between two parties is a very large concept; there are many possible components of the definition. To operationalize our study we have borrowed a multi-item measurement instrument to define a client relationship as either more Relational (RA) or more Transactional (TA). The items that make up our multi-item measure have been conceptually designed and empirically tested in various Relational Marketing articles, as we have discussed throughout this text (Fink *et al.*, 2007; Kaufman and Dant, 1992; Macneil, 1980; Rokkan *et al.*, 2003). However, there are other conceptual and empirical marketing studies that define relationships between buyers and sellers using other variables (Coviello *et al.*, 1997; 2000; 2002; Gummesson, 1994; Morgan and Hunt 1994). Even though there are various variables in the literature, we chose the ones that would best conceptually model the auditor-client relationship; and we chose variables that would best help answer our research question. The studies from which we borrowed our measures are different industries and different respondent populations. This might explain why items in our results did not load

under the same dimensions as our borrowed research models. It would be important to replicate this research in the audit industry to see if the multi-item scales we used show similar results, which we discuss in the following section on future research.

The multi-items used to measure the client's relational preference that we borrowed from the marketing studies mentioned above, had to be slightly modified following our two pre-tests. In our first test, we used 24 questions with the exact wording of our borrowed items. The pre-test candidates found some of the questions confusing and found our questionnaire too long. We were concerned about the clarity and length of the questionnaire, which has been shown to reduce response rates (Dillman, 2006). These relationship questions were being added to the Risk Aversion, Ethics of Care and Locus of Control questions and the questionnaire was very long. Therefore, we needed to modify and remove certain questions. Our second round of pre-tests showed these changes to have been successful. However, these modifications might have weakened the measure as originally conceptualized. Future research using the exact wording and the exact number of items for the Relational Preference multi-item measurement could be done to see if there are differences from our study.

We argue that our 18 item single mean relational measure showed internal consistency (reliability) because the Cronbach Alpha of the measure was 0,7208, which exceeded 0,6000 (Hair *et al.*, 2006). However, in the Cronbach Alpha formula the number of items (N) is in the numerator. Therefore, a measure with a high number of items will produce a high Cronbach Alpha. This is another important reason to replicate this research in the audit industry to see if the results are similar; then we would have a true test of internal consistency.

When sensitive questions are asked, there is always the risk of Social Desirability Bias (SDB). SDB is possible when a respondent wants to appear favourable when asked a sensitive question (Bradburn *et al.*, 2004). There is no empirical evidence to indicate that audit clients would prefer appearing more relational than more transactional. However, it could be argued that it is more fashionable to appear relational than transactional given the relational definitions are more indicative of a sociable person (Dwyer *et al.*, 1987). Similarly, it could be argued that it was socially desirable for the respondents to say they desired an Arm's Length relationship because it is a popular topic in the accounting industry: that the

auditor and client need to remain independent and not too familiar (CICA, 2006). However, we did take proven measures to reduce the risk of SDB (Dillman, 2006). We asked more than one question for a particular dimension (topic). We also sent the questionnaires by mail and assured the clients that their responses were confidential. Our survey method did not give us the name of the respondent and the respondent was made clear of the measure. Notwithstanding our efforts to reduce SDB there is no full proof method to do so.

We asked respondents questions at one point in time. We know that relationships evolve with time (Dwyer *et al.*, 1987); therefore, a longitudinal study would better capture the dynamics of an evolving relationship. We encourage a replicate study using a longitudinal approach, using different points in time.

The results of our second hypothesis (H2) using the secondary variable Risk Aversion was not supported and could have been due to measuring the respondents' general risk aversion instead of their perception of risk particular to the audit industry. We predicted that audit clients that showed higher risk aversion would show a higher preference for a relational approach with their auditors (RA). The theoretical justification for this predicted correlation was that audit clients that do not like risk (risk averse) would seek security by forming relationships with their auditor (Sheth and Pavatiyar, 1995). We still believe that clients that perceive the year-end financial audit as risky would prefer a Relational Approach with their auditor. Our measure of Risk Aversion was a general measure that had nothing to do with the audit service. So it is possible that respondents who scored low in risk aversion could still perceive the audit as risky. Future research should ask respondents specific risk questions in respect to their audit.

Finally, we are limited by the constraints of a mail survey. Without being present to interview clients, we were unable to clarify uncertainties that participants might have had with the questions. In addition, a mail survey is limiting in terms of the depth of information that one receives.

7.3 FUTURE RESEARCH

We asked respondents questions about their relationships with their auditors at one period in time. However, relationships have been conceptualized as moving through different stages

that are different in short term and long-term periods (Dwyer *et al.*, 1987; Morgan and Hunt 1994). A longitudinal study should be performed which would ask respondents about their relationship with their auditor at different interval periods. This would allow to measure differences due to the evolution of the relationship.

Given the various definitions and variables of relationships that exist in the Relationship Marketing literature it would be important to replicate this research in the audit industry to see if the multi-item measures could give similar results. This replication study would also help us see if the measures that we borrowed from different industries are applicable in the audit industry.

In addition, our study had certain criteria that restrict its generalizability. Our sample population included only English speaking private companies, outside of Quebec, with over 100 employees. Another study should use the same measures but include French speaking Quebec companies with less than 100 employees to see if there are any significant cultural differences and differences in small companies.

We addressed a possible issue of Reliability (Internal Consistency) of our Relationship Preference measurement. Our Cronbach Alpha was high mainly due to a high number (18) of items, which could have overstated the Reliability of our measure. This is another important reason to replicate our study in the audit industry. A repeated measurement, in a subsequent timeframe, is a good method to measure Internal Consistency (Hair *et al.*, 2006).

We would like to see correlation results with the risk assessment of the audit and the client's relational preference to see if audit clients would seek protection from risk by choosing a relational approach with their auditor.

We discussed the results of audit partners' relational preference (Elbekkai and Pilote, 2004; Pilote and Elbekkali, 2004) and we have produced results for audit clients. It would be important to continue a study that would measure the relationship preferences between the auditor and the client but from the perspective of the third party user. In the case of private companies, the 3rd party user would most likely be the bank or other creditors. Since the 3rd party is the ultimate user of the audit, and who can influence regulations, it would be interesting to see if the 3rd party user would prefer a transactional or relational approach between auditors and their clients.

Similarly, a dyadic study between the auditor and the client would be important to see if there would be differences between auditor and client preferences, which could give rise to mismatches. Mismatches have been conceptualized in the Relationship Marketing literature (Pels *et al.*, 2000). For example, if auditors were found to offer a relational service but customers only preferred a transactional approach then the audit firm would be wasting resources (Pels *et al.*, 2000). If on the other hand, the audit firm is offering a transactional service and the client prefers a relational approach the audit firm would suffer from customer dissatisfaction (Pels *et al.*, 2000). Therefore, by measuring the two party preferences these possible mismatches could be better managed.

It would be a contribution to this study to pursue face-to-face qualitative interviews, in order to have the audit client define in their own words their relationship with their auditors. We would be able to see if relationship variables inductively created from these interviews match the variables in other buyer-seller marketing studies.

APPENDIX A

COVER LETTER

November, 2008

Dear Madam or Sir:

I am writing to ask for your help in a survey study being conducted as a part of my PhD thesis. You have been selected to participate in this research because you are the individual in your organisation that is responsible for managing the relationship with your external auditor (hereafter referred to as auditor). If you are not responsible for managing the relationship with your company's auditor would you kindly transfer this document to the individual that has this responsibility.

The objective of my research project is to determine the type of relationships that clients would like to have with their auditors. Also, I am interested in knowing if certain personal characteristics of clients are related to relationship preferences with their auditors.

This research is important as the results will help us better understand auditor-client relationships from your perspective: the client. Audit clients play a very important role in the overall audit service and very little is known about the client's relationship with their auditor.

Your answers are completely confidential and will be released only as summaries in which no individual's answers can be identified. Our results will be shared with you, if you so desire, which should provide you with a more complete understanding of the overall relationship preferences of other audit clients.

This survey is voluntary and there are no correct or incorrect answers; we are only interested in your perceptions.

The questionnaire has been designed so that you can complete it quickly and easily. You need to only put Xs on a line or in a circle. A post-paid return envelope has been included for your convenience.

Also, this study has been approved by the UQAM ethical sub-committee. If you have any questions or comments about this study, I would be happy to talk with you. You could call me at 514 987 3000 extension 2480.

Thank you very much for helping me with my study.
Sincerely,

Richard Fontaine CMA, MPA, PhD Candidate
Professor, Accounting Dept. UQAM
Joint PhD Program (UQAM, U of M, McGill, Concordia)
Montréal, Québec
514 987 3000 ext. 2480
fontaine.richard@uqam.ca

APPENDIX B

CMA CANADA LETTER OF SUPPORT

October 30, 2008

To: Whom it may concern

Re: Richard Fontaine Research Project

CMA Canada is sponsoring Mr. Richard Fontaine as a PhD candidate. This sponsorship is through the CMA Canada Doctoral Support Program.

The CMA Canada Doctoral Support Program fosters the development of new PhDs who will help strengthen the field of Management Accounting through research and academic excellence.

On behalf of CMA Canada, I would encourage you to participate in Richard's research project.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard Benn', with a long horizontal flourish extending to the right.

Richard Benn, FCMA
Executive Vice President,
Member Development

The Society of Management Accountants 05 949-0888 of Canada
La Société des comptables en management du Canada
1 Robert Speck Parkway, Suite 1400, Mississauga, Ontario, Canada L4Z 3M3
tel: 905 949-4200 or 1 800 263 7622 fax: 9.
e-mail: info@cma-canada.org website: www.cma-canada.org

APPENDIX C

RELATIONAL PREFERENCE QUESTIONNAIRE

INSTRUCTIONS ON HOW TO RESPOND TO THE FOLLOWING SECTIONS A-C OF THE QUESTIONNAIRE

You will be asked to please place an X on the part of the line that best represents your opinion.

The following is an **EXAMPLE**:

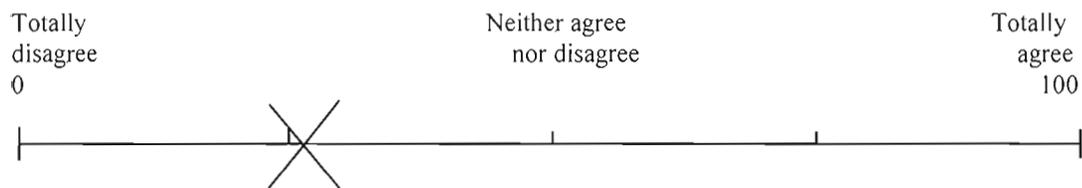
Your X can be situated anywhere on the line provided.

The following example provides different possible answers.

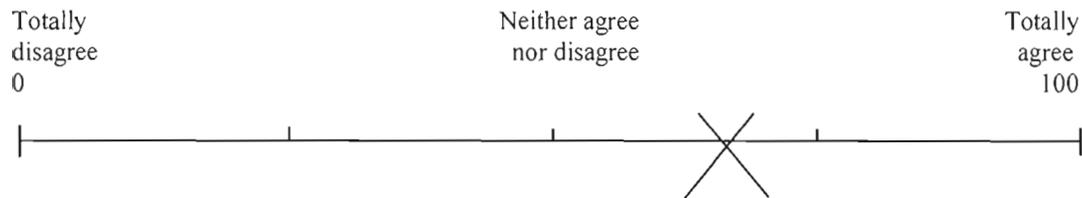
EXAMPLE:

Performing physical exercise is essential for good mental health.

An answer of “mostly disagree” could be indicated as follows:



An answer of “slight agreement” could be indicated as follows:



SECTION A: Relational Preferences**PLEASE GIVE US YOUR OPINION CONCERNING YOUR RELATIONSHIP WITH YOUR AUDITOR**

For the following 20 questions we are interested in your perceptions your **preferred relationship** with your auditor.

There is **no correct or no incorrect answer**.

For each of the following 20 statements please put an X on the part of the line that best represents your opinion.

Your X can be situated anywhere on the line provided.

PLEASE BEGIN HERE

1. The relationship with my auditor plays a more important role than the audit service.

(By **relationship with my auditor** we mean any interactions with your auditor, including business and/or non-business dealings).

Totally disagree 0	Neither agree nor disagree	Totally agree 100

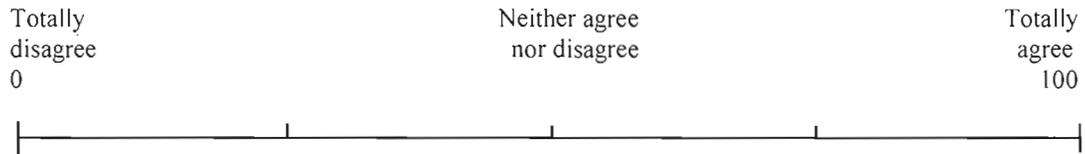
2. The relationship with my auditor is only important if I am satisfied with the audit service.

Totally disagree 0	Neither agree nor disagree	Totally agree 100

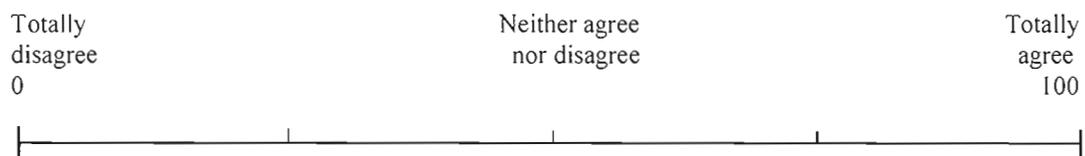
3. The relationship with my auditor is only important to the extent that it facilitates the audit service.

Totally disagree 0	Neither agree nor disagree	Totally agree 100

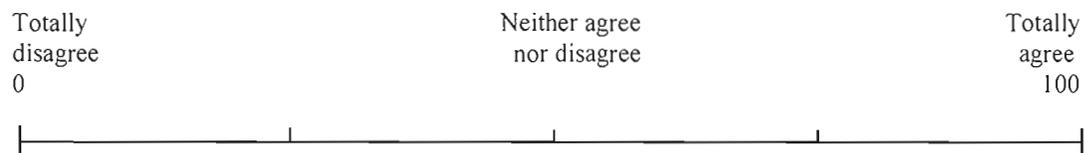
4. If my auditor has information which could help our organization in the production or distribution of our product or service, he or she provides that information.



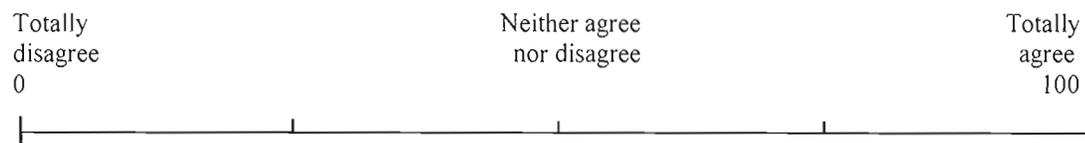
5. There is a very high level of trust between my auditor and me.



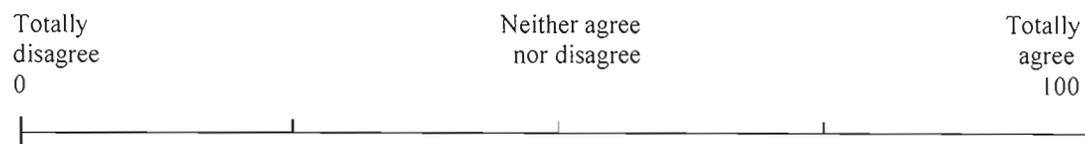
6. The relationship with my auditor could be described as "arms length".
(**arms length** is defined as: *relating in such a way as to avoid familiarity and prevent direct influence by any of the parties over the other or others*).



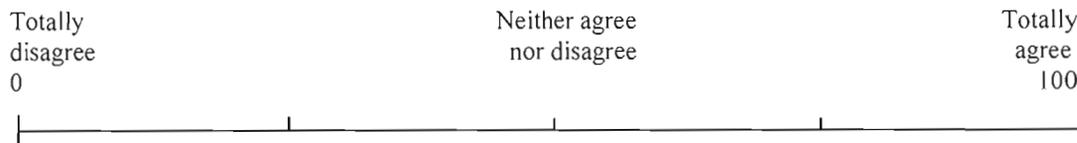
7. The relationship with my auditor is a "long-term venture".
(**long-term** is defined as: *lasting or intended to last for a long time*)



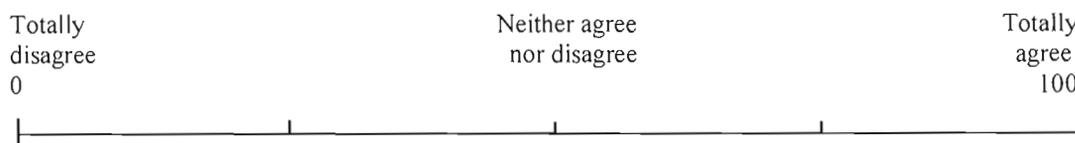
8. The relationship with my auditor is a series of one shot dealings.
(**one-shot** is defined as: *Informal being the only one, not part of a series*)



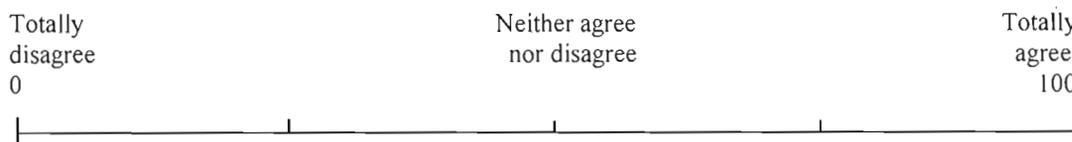
9. The relationship with my auditor could be described as a “cooperative effort”.
(**cooperative** is defined as: *Wanting or willing to work together with others*)



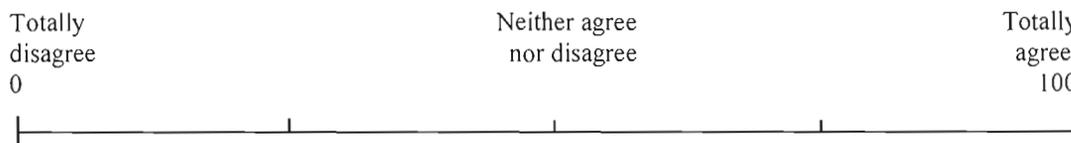
10. I rarely use pressure tactics to influence my auditor.
(As an example, a client could **influence** their audit on issues regarding audit fees, financial statement issues, etc.)



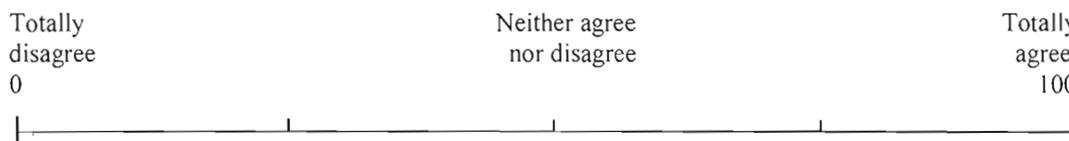
11. We avoid putting pressure on our auditor in cases of conflicting interest, in order to preserve the overall atmosphere of the relationship.



12. I have expectations of my auditor that go beyond the audit service.
(**expectations that go beyond audit services** could be non-audit business issues that are uncovered during the audit, other non-billable consulting services or also any non-business issues)

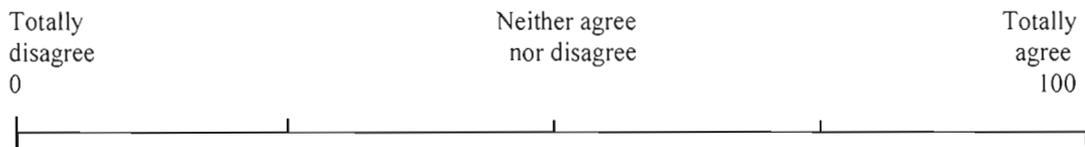


13. My relationship with my auditor also includes non-audit issues.
(by **non-audit issues** we mean any issue, business or non-business, that is not a part of the audit service)



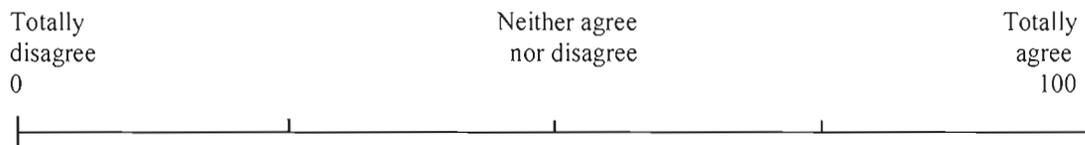
14. The only expectation I have concerning the behaviour of my auditor is that he or she provide the agreed upon audit service.

(the **agreed upon audit service** means the quantity and quality of audit service for the agreed price and timeframe.)

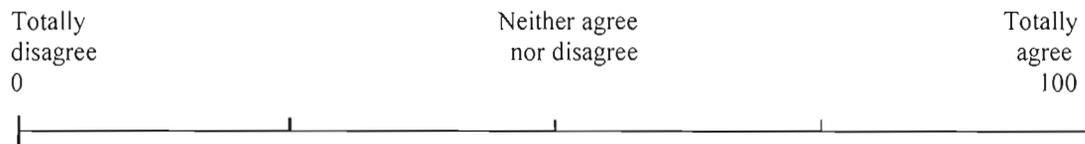


15. When circumstances change, my auditor and I can easily make modifications to our agreement.

(by **agreement** we mean any predetermined terms agreed upon, either formally with an engagement letter, or an informal agreement understood by both parties)

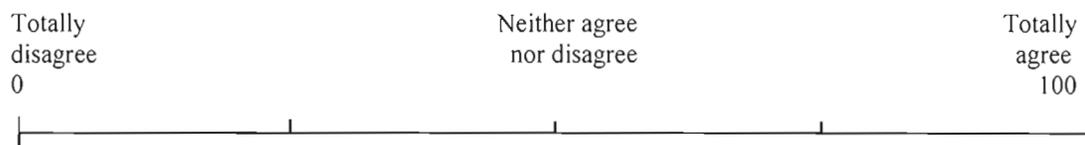


16. The terms of the agreement with my auditor are not renegotiable under any circumstances.

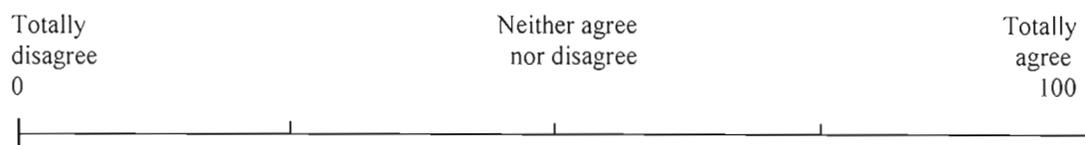


17. There is a give and take on specifics of the audit service if business conditions change.

(examples of a **give and take on specifics of the audit service** could be related to audit service pricing or also related to financial statement issues).



18. I do more to help my auditor than my auditor does to help me.



APPENDIX D

RISK AVERSION QUESTIONNAIRE

For the following 3 sections, B-D, we would like to better understand some of your personal characteristics. Our objective is to see if there is a relationship between these personal characteristics and the questions you answered in the previous section A.

SECTION B: RISK AVERSION

PLEASE GIVE US YOUR PERCEPTION TO THE FOLLOWING STATEMENTS.

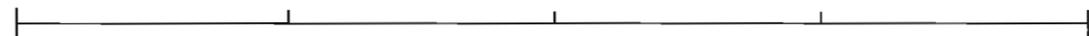
For each of the following 8 statements please put an X on the part of the line that best represents your opinion. There is **no correct or incorrect answer**; we are interested in your **perception**.

Your X can be situated anywhere on the line provided.

PLEASE BEGIN HERE

1. I am a person that generally avoids all risk.

Totally disagree	Neither agree nor disagree	Totally agree
0		100

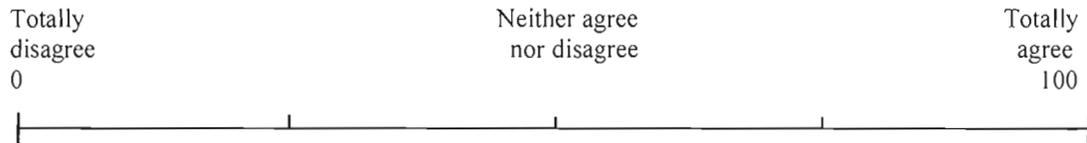


2. People that want to succeed in their career need to take risks.

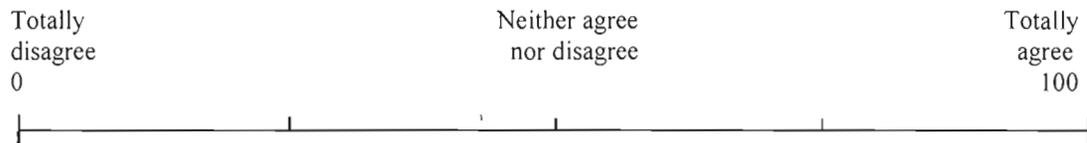
Totally disagree	Neither agree nor disagree	Totally agree
0		100



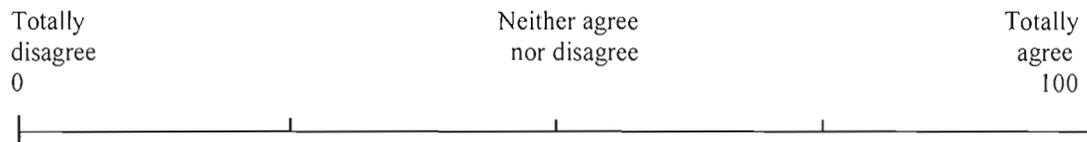
3. I always remain cautious, even if it means sometimes losing good opportunities.



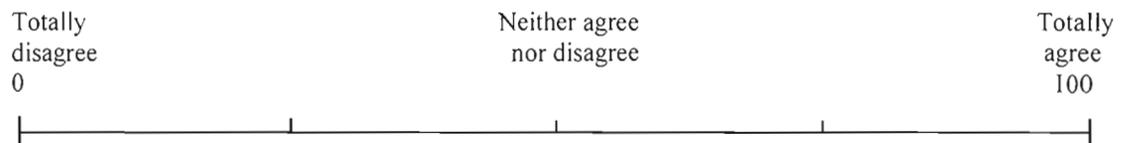
4. I view the risk of a job as a situation to be avoided at all costs.



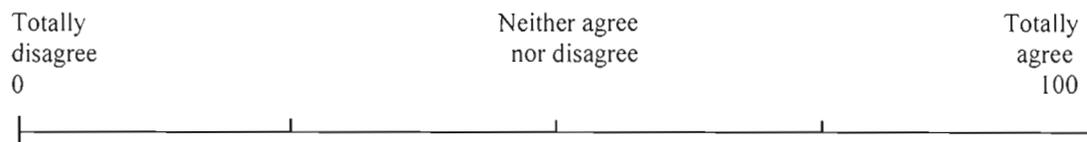
5. I am not willing to take risks when choosing a job or a company to work for.



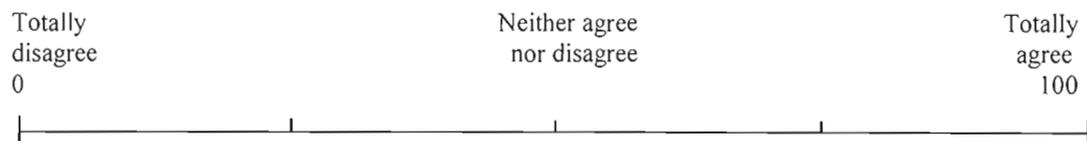
6. I prefer to remain on a job that has problems that I know about rather than take risks of working at a new job that has unknown problems even if the new job offers greater rewards.



7. I prefer a low risk/high security job with a steady salary over a job that offers high risks and high rewards.



8. I believe that it is wise to have a career plan with little risk even if it is to the detriment of great success.



APPENDIX E

ETHICS OF CARE QUESTIONNAIRE

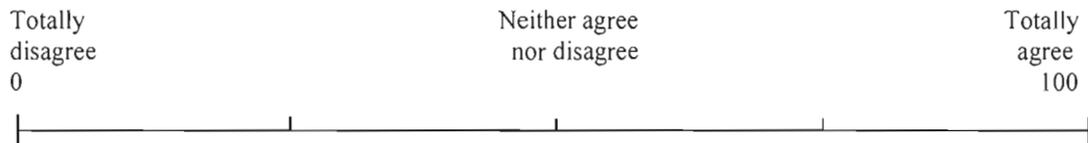
SECTION C: ETHICS OF CARE

PLEASE TELL US HOW THE FOLLOWING STATEMENTS DESCRIBE YOUR THOUGHTS AND FEELINGS.

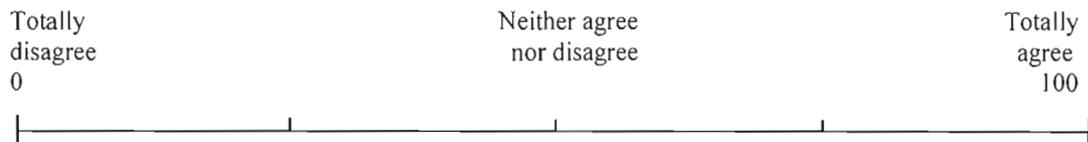
Please rate the following statements as to how closely they describe your thoughts and feelings. We are interested in your **perceptions**; there is **no correct or incorrect answer**.

PLEASE BEGIN HERE

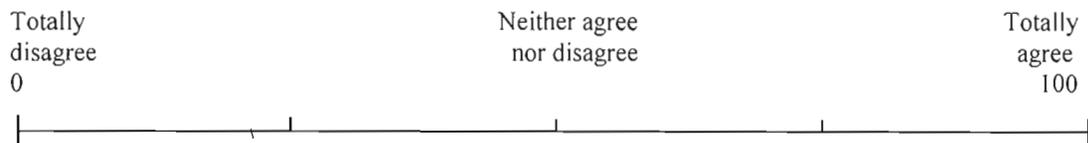
1. When solving problems, relationships are more important than the rights of individuals.
(By rights we mean principles (moral, legal, universal, etc.), whereas by relationships we mean the feelings and care of people)



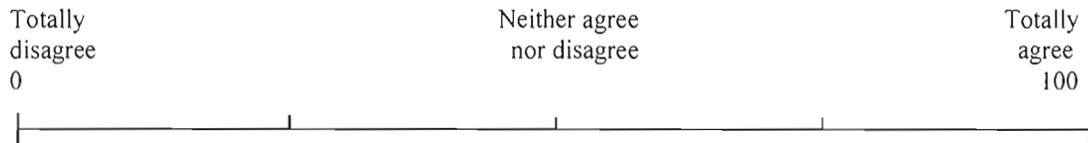
2. I try to resolve problems in a way that does not violate the rights of any of the people involved.



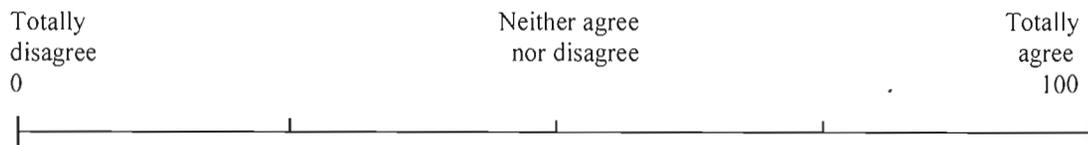
3. In practically all situations, I make decisions based upon the principles and rules rather than upon who is involved.



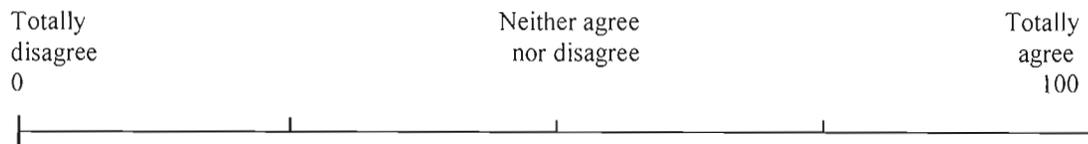
4. My decisions would favour those I care about more than those I do not know.



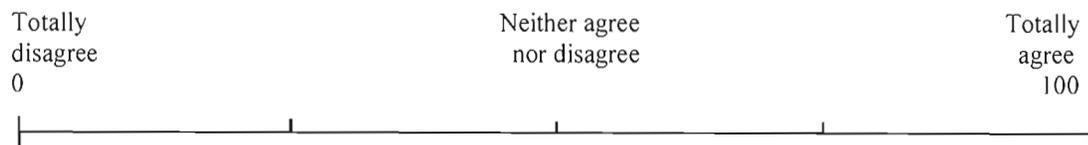
5. When I make decisions, I tend to be more subjective than objective.



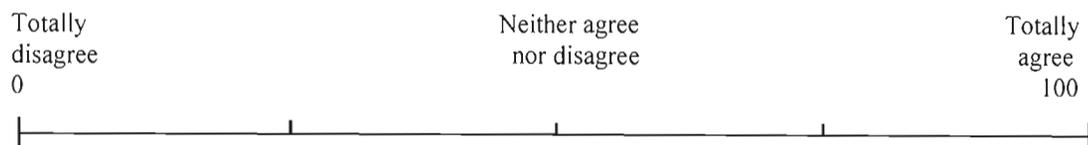
6. In solving conflicts, I try to be rational without much regard to feelings.



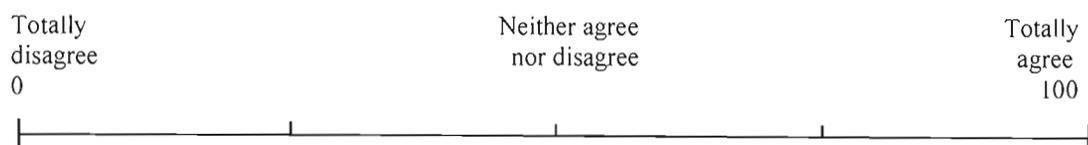
7. I would not do anything to jeopardize my relationship with someone.



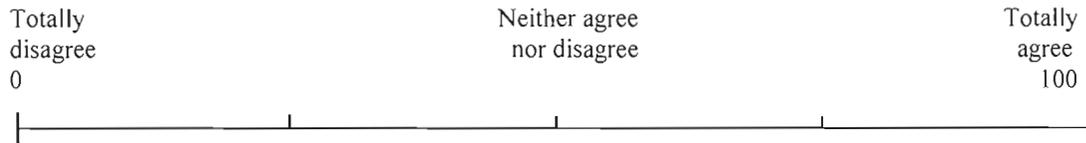
8. In all situations, I am impartial and unattached when making decisions.



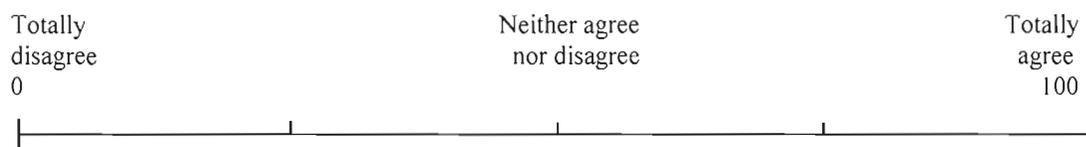
9. In most situations, I am impartial and unattached when making decisions.



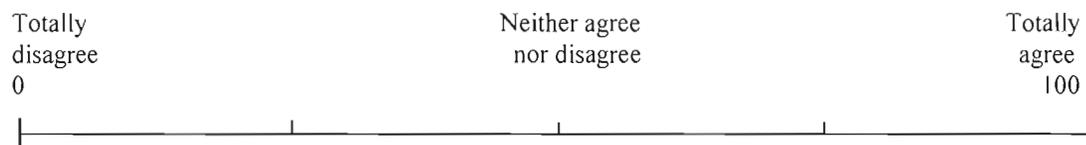
10. In practically all situations I make decisions based upon who is involved rather than upon principles or rules.



11. I would rather be known as someone who is always objective and just than someone who is sensitive to others' feelings.



12. When I make decisions I tend to be more concerned with how my decisions will affect others rather than whether I am doing the "right" thing.



APPENDIX F

LOCUS OF CONTROL QUESTIONNAIRE

SECTION D: LOCUS OF CONTROL

PLEASE TELL US WHAT YOU BELIEVE IS TRUE IN THE FOLLOWING STATEMENTS.

Next to each of the following 17 numbers there are two statements. For each number place an X in the circle next to the statement which you believe to be **true**, despite what you may wish to be true.

There is **no correct or incorrect answer**. Please answer all the questions.

PLEASE BEGIN HERE

1. Children get into trouble because their parents punish them too harshly.

OR

... The trouble with most children nowadays is that their parents are too easy with them.

2. The idea that employers are unfair to employees is nonsense.

OR

... Most employees don't realize the extent to which their evaluations are influenced by happenings that have nothing to do with their work performance.

3. Without the right breaks one cannot be an effective leader.

OR

... Capable people who fail to become leaders have not taken advantage of their opportunities.

4. I have often found that what is going to happen, will happen.

OR

... Trusting to fate has never turned out as well for me as making a decision to take a definite course of action.

5. In the case of an individual who works conscientiously, there is rarely if ever such a thing as an unfair evaluation.

OR

.... Many times evaluations tend to be so unrelated to realised work working conscientiously is often useless.

6. There are certain people who are just no good.

OR

.... There is some good in everybody.

7. Becoming a success is a matter of hard work. Luck has little or nothing to do with it.

OR

.... Getting a good job depends mainly on being in the right place at the right time.

8. In my case getting what I want has little or nothing to do with luck.

OR

.... Many times we might just as well decide what to do by flipping a coin.

9. As far as world affairs are concerned, most of us are the victims of forces we can neither understand, nor control.

OR

.... By taking an active part in political and social affairs the people can control world events.

10. Most people don't realize the extent to which their lives are controlled by accidental happenings.

OR

.... There really is no such thing as "luck."

11. It is hard to know whether or not a person really likes you.

OR

.... How many friends you have depends upon how nice a person you are.

12. In the long run the bad things that happen to us are balanced by the good ones.

OR

.... Most misfortunes are the result of lack of ability, ignorance, laziness, or all three.

13. One should always be willing to admit mistakes.

OR

.... It is usually best to cover up one's mistakes.

14. Sometimes I can't understand how employers arrive at the evaluations they give.

OR

.... There is a direct relationship between how hard I work and the evaluations I get.

15. Many times I feel that I have little influence over the things that happen to me.

OR

.... I do not believe that chance or luck plays an important role in my life.

16. What happens to me is my own doing.

OR

... Sometimes I feel that I don't have enough control over the direction my life is taking.

17. Most of the time I can't understand why politicians behave the way they do.

OR

... In the long run the people are responsible for bad government on a national as well as on a local level.

APPENDIX G

PERSONAL AND CORPORATE INFORMATION QUESTIONNAIRE

SECTION E: PERSONAL AND CORPORATE INFORMATION

1. Gender: _____ Male _____ Female
2. Number of years of experience in your actual position: _____
3. Number of years of experience in your area of work: _____
4. Name of your present audit firm: _____
5. Length of time you have been doing business with your audit firm: _____
6. Indicate the services provided to your organization by your present audit firm:
_____ Audit services
_____ Review Engagement
_____ Notice to Reader
7. Of the total annual fees paid to your audit firm, approximately, what percentage of the total payment (100%) is for:
Audit or Review Engagement services _____ %
Other billable services _____ %
If applicable please specify the name of the other billable services:

THIS COMPLETES OUR SURVEY.

Thank you very much for your collaboration !

APPENDIX H

PHONE CONVERSATION

Hello Mister (or Mrs)

My Name is Richard Fontaine

I am calling you to ask for a small favor. I am conducting a research project to complete my PhD thesis at the University of Québec in Montréal. I have sent you a questionnaire, and I would appreciate your generous help if you could take few minutes to fill it out.

I understand you must be very busy and your time is precious, but the questionnaire is actually easy and quick to fill out.

Other Financial executives like you have participated in the survey and found it easy, completing it in less than 30 minutes.

There are no open ended questions but just Xs to put on a line. I have included a pre-addressed and pre-paid return envelope for your convenience. I actually think you might find the questionnaire interesting.

The objective of the research is to determine the type of relationship clients would like to have with their auditor. The results of this research, which I would be happy to share with you, should help auditors better service their clients and lower overall audit costs (this is true by getting clients to cooperate they can get info easier, less work and less risk).

This research is sponsored by UQAM and CMA Canada.

I am depending on your generous help to so I can complete my PhD thesis
Many thanks in advance.

I wish you a nice day.

APPENDIX I

RELATIONAL PREFERENCE FRENQUENCIES

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	559,44	1	,3	,3	,3
	644,72	1	,3	,3	,7
	658,33	1	,3	,3	1,0
	672,22	1	,3	,3	1,3
	745,83	1	,3	,3	1,6
	764,72	1	,3	,3	2,0
	765,00	1	,3	,3	2,3
	781,39	1	,3	,3	2,6
	798,06	1	,3	,3	2,9
	807,22	1	,3	,3	3,3
	808,89	1	,3	,3	3,6
	818,61	1	,3	,3	3,9
	822,22	1	,3	,3	4,2
	825,56	1	,3	,3	4,6
	834,17	1	,3	,3	4,9
	837,78	2	,7	,7	5,6
	852,22	1	,3	,3	5,9
	856,67	1	,3	,3	6,2
	865,28	1	,3	,3	6,5
	871,11	1	,3	,3	6,9
	871,67	1	,3	,3	7,2
	875,00	1	,3	,3	7,5
	878,06	1	,3	,3	7,8
	878,33	1	,3	,3	8,2
	878,61	1	,3	,3	8,5
	878,89	1	,3	,3	8,8
	884,44	1	,3	,3	9,2
	891,67	1	,3	,3	9,5
	894,72	1	,3	,3	9,8
	898,61	1	,3	,3	10,1
	902,22	1	,3	,3	10,5
	904,72	1	,3	,3	10,8
	908,89	1	,3	,3	11,1
	910,00	1	,3	,3	11,4
	914,17	1	,3	,3	11,8

	Frequency	Percent	Valid Percent	Cumulative Percent
919,17	1	,3	,3	12,1
920,28	1	,3	,3	12,4
926,67	1	,3	,3	12,7
926,94	1	,3	,3	13,1
936,11	1	,3	,3	13,4
937,78	1	,3	,3	13,7
939,72	1	,3	,3	14,1
942,22	1	,3	,3	14,4
942,78	1	,3	,3	14,7
944,72	1	,3	,3	15,0
946,39	1	,3	,3	15,4
948,61	1	,3	,3	15,7
949,72	2	,7	,7	16,3
951,11	1	,3	,3	16,7
951,67	1	,3	,3	17,0
952,78	1	,3	,3	17,3
953,06	1	,3	,3	17,6
953,33	1	,3	,3	18,0
955,56	1	,3	,3	18,3
959,44	1	,3	,3	18,6
961,11	1	,3	,3	19,0
962,50	1	,3	,3	19,3
965,00	2	,7	,7	19,9
966,11	1	,3	,3	20,3
968,33	1	,3	,3	20,6
976,11	1	,3	,3	20,9
977,50	1	,3	,3	21,2
979,44	1	,3	,3	21,6
983,06	1	,3	,3	21,9
984,44	1	,3	,3	22,2
991,94	1	,3	,3	22,5
992,50	1	,3	,3	22,9
992,78	1	,3	,3	23,2
1004,17	1	,3	,3	23,5
1005,83	1	,3	,3	23,9
1007,50	1	,3	,3	24,2
1010,00	1	,3	,3	24,5
1013,61	1	,3	,3	24,8
1013,89	1	,3	,3	25,2
1016,94	1	,3	,3	25,5
1018,89	1	,3	,3	25,8
1022,22	1	,3	,3	26,1
1025,28	1	,3	,3	26,5
1026,11	1	,3	,3	26,8

		Frequency	Percent	Valid Percent	Cumulative Percent
	1029,17	1	,3	,3	27,1
	1030,28	1	,3	,3	27,5
	1034,72	1	,3	,3	27,8
	1036,67	1	,3	,3	28,1
	1037,22	1	,3	,3	28,4
	1037,50	1	,3	,3	28,8
	1039,44	1	,3	,3	29,1
	1041,94	1	,3	,3	29,4
	1042,22	1	,3	,3	29,7
	1044,44	1	,3	,3	30,1
	1045,56	1	,3	,3	30,4
	1046,67	1	,3	,3	30,7
	1047,22	1	,3	,3	31,0
	1048,06	1	,3	,3	31,4
	1048,61	1	,3	,3	31,7
	1050,00	1	,3	,3	32,0
	1051,39	1	,3	,3	32,4
	1052,22	2	,7	,7	33,0
	1053,61	1	,3	,3	33,3
	1053,89	1	,3	,3	33,7
	1055,56	1	,3	,3	34,0
	1057,78	1	,3	,3	34,3
	1058,61	1	,3	,3	34,6
	1058,89	2	,7	,7	35,3
	1062,22	1	,3	,3	35,6
	1066,39	1	,3	,3	35,9
	1068,33	1	,3	,3	36,3
	1068,61	1	,3	,3	36,6
	1071,67	1	,3	,3	36,9
	1073,06	1	,3	,3	37,3
	1075,28	1	,3	,3	37,6
	1075,83	1	,3	,3	37,9
	1076,94	1	,3	,3	38,2
	1078,06	1	,3	,3	38,6
	1078,61	2	,7	,7	39,2
	1078,89	1	,3	,3	39,5
	1079,17	1	,3	,3	39,9
	1080,28	1	,3	,3	40,2
	1083,61	1	,3	,3	40,5
	1086,94	2	,7	,7	41,2
	1089,17	1	,3	,3	41,5
	1090,00	1	,3	,3	41,8
	1090,28	1	,3	,3	42,2
	1090,56	1	,3	,3	42,5

		Frequency	Percent	Valid Percent	Cumulative Percent
	1092,78	2	,7	,7	43,1
	1094,72	1	,3	,3	43,5
	1097,78	1	,3	,3	43,8
	1098,33	1	,3	,3	44,1
	1098,61	1	,3	,3	44,4
	1100,83	1	,3	,3	44,8
	1101,11	1	,3	,3	45,1
	1101,94	1	,3	,3	45,4
	1104,17	1	,3	,3	45,8
	1105,56	1	,3	,3	46,1
	1106,11	1	,3	,3	46,4
	1108,89	1	,3	,3	46,7
	1112,50	2	,7	,7	47,4
	1112,78	1	,3	,3	47,7
	1113,61	1	,3	,3	48,0
	1114,44	1	,3	,3	48,4
	1115,56	1	,3	,3	48,7
	1117,78	1	,3	,3	49,0
	1118,61	1	,3	,3	49,3
	1122,50	2	,7	,7	50,0
	1123,06	1	,3	,3	50,3
	1123,61	1	,3	,3	50,7
	1124,72	1	,3	,3	51,0
	1126,39	1	,3	,3	51,3
	1127,50	1	,3	,3	51,6
	1128,33	1	,3	,3	52,0
	1131,11	1	,3	,3	52,3
	1133,06	1	,3	,3	52,6
	1134,72	1	,3	,3	52,9
	1135,28	1	,3	,3	53,3
	1136,11	1	,3	,3	53,6
	1136,39	1	,3	,3	53,9
	1137,50	1	,3	,3	54,2
	1139,17	1	,3	,3	54,6
	1139,72	2	,7	,7	55,2
	1140,00	1	,3	,3	55,6
	1143,61	1	,3	,3	55,9
	1144,44	1	,3	,3	56,2
	1145,28	1	,3	,3	56,5
	1149,44	1	,3	,3	56,9
	1150,00	1	,3	,3	57,2
	1151,39	1	,3	,3	57,5
	1151,94	1	,3	,3	57,8
	1152,22	1	,3	,3	58,2

		Frequency	Percent	Valid Percent	Cumulative Percent
	1153,06	2	,7	,7	58,8
	1156,11	1	,3	,3	59,2
	1156,39	1	,3	,3	59,5
	1158,33	1	,3	,3	59,8
	1158,61	1	,3	,3	60,1
	1159,17	1	,3	,3	60,5
	1160,28	1	,3	,3	60,8
	1163,06	1	,3	,3	61,1
	1163,33	2	,7	,7	61,8
	1164,44	1	,3	,3	62,1
	1164,72	1	,3	,3	62,4
	1165,00	1	,3	,3	62,7
	1166,11	1	,3	,3	63,1
	1166,39	2	,7	,7	63,7
	1168,89	2	,7	,7	64,4
	1169,17	1	,3	,3	64,7
	1170,83	1	,3	,3	65,0
	1171,39	2	,7	,7	65,7
	1173,06	1	,3	,3	66,0
	1174,17	1	,3	,3	66,3
	1176,94	1	,3	,3	66,7
	1177,22	1	,3	,3	67,0
	1177,78	1	,3	,3	67,3
	1178,61	1	,3	,3	67,6
	1179,72	1	,3	,3	68,0
	1182,22	1	,3	,3	68,3
	1182,78	1	,3	,3	68,6
	1183,89	2	,7	,7	69,3
	1185,00	1	,3	,3	69,6
	1185,28	1	,3	,3	69,9
	1185,56	2	,7	,7	70,6
	1186,67	1	,3	,3	70,9
	1188,89	1	,3	,3	71,2
	1191,11	1	,3	,3	71,6
	1194,44	1	,3	,3	71,9
	1196,39	1	,3	,3	72,2
	1198,06	1	,3	,3	72,5
	1198,33	1	,3	,3	72,9
	1198,89	1	,3	,3	73,2
	1199,72	2	,7	,7	73,9
	1200,83	1	,3	,3	74,2
	1202,78	1	,3	,3	74,5
	1203,06	1	,3	,3	74,8
	1207,22	1	,3	,3	75,2

	Frequency	Percent	Valid Percent	Cumulative Percent
1210,00	1	,3	,3	75,5
1210,83	1	,3	,3	75,8
1216,39	1	,3	,3	76,1
1216,94	1	,3	,3	76,5
1217,78	1	,3	,3	76,8
1219,72	2	,7	,7	77,5
1225,83	1	,3	,3	77,8
1229,17	1	,3	,3	78,1
1231,67	1	,3	,3	78,4
1232,50	1	,3	,3	78,8
1235,28	1	,3	,3	79,1
1236,67	1	,3	,3	79,4
1239,44	1	,3	,3	79,7
1240,00	1	,3	,3	80,1
1240,28	1	,3	,3	80,4
1240,83	1	,3	,3	80,7
1242,78	1	,3	,3	81,0
1243,89	1	,3	,3	81,4
1244,17	1	,3	,3	81,7
1245,28	2	,7	,7	82,4
1245,56	1	,3	,3	82,7
1246,39	1	,3	,3	83,0
1248,06	1	,3	,3	83,3
1254,17	1	,3	,3	83,7
1259,44	1	,3	,3	84,0
1260,56	1	,3	,3	84,3
1261,67	1	,3	,3	84,6
1264,44	1	,3	,3	85,0
1268,61	1	,3	,3	85,3
1272,78	1	,3	,3	85,6
1273,33	1	,3	,3	85,9
1284,72	1	,3	,3	86,3
1290,28	1	,3	,3	86,6
1291,94	1	,3	,3	86,9
1292,22	1	,3	,3	87,3
1293,89	1	,3	,3	87,6
1294,44	1	,3	,3	87,9
1295,28	1	,3	,3	88,2
1298,06	1	,3	,3	88,6
1299,72	1	,3	,3	88,9
1300,56	1	,3	,3	89,2
1300,83	1	,3	,3	89,5
1301,67	1	,3	,3	89,9
1302,50	2	,7	,7	90,5

	Frequency	Percent	Valid Percent	Cumulative Percent
1308,06	1	,3	,3	90,8
1308,33	1	,3	,3	91,2
1312,22	1	,3	,3	91,5
1313,61	1	,3	,3	91,8
1313,89	1	,3	,3	92,2
1314,44	1	,3	,3	92,5
1316,94	1	,3	,3	92,8
1328,61	1	,3	,3	93,1
1330,56	1	,3	,3	93,5
1335,00	1	,3	,3	93,8
1336,39	1	,3	,3	94,1
1340,28	1	,3	,3	94,4
1346,39	1	,3	,3	94,8
1347,78	1	,3	,3	95,1
1348,33	1	,3	,3	95,4
1349,72	1	,3	,3	95,8
1352,22	1	,3	,3	96,1
1355,83	1	,3	,3	96,4
1363,33	1	,3	,3	96,7
1370,56	1	,3	,3	97,1
1371,94	1	,3	,3	97,4
1385,28	1	,3	,3	97,7
1395,83	1	,3	,3	98,0
1396,11	1	,3	,3	98,4
1406,94	1	,3	,3	98,7
1411,94	1	,3	,3	99,0
1469,44	1	,3	,3	99,3
1472,50	1	,3	,3	99,7
1553,61	1	,3	,3	100,0
Total	306	100,0	100,0	

APPENDIX J

SCOTT

Bonjour Richard,

Malheureusement nous n'avons pas d'indicateur pour identifier les compagnies privées et celles inscrites à la bourse.

Si de plus amples informations sont nécessaires, n'hésite pas à communiquer avec moi (cell car je suis en salon d'exposition à Montréal 647-207-8931).

John La Battaglia

Account Manager / Chargé de Comptes

E-Business Group

12 Concorde Place , Suite 800

Toronto, ON M3C 4J2

Tel: 416-510-6843 Fax: 416-510-6870

Toll Free: 1-800-408-9431 Ext.29

E-mail / Courriel: jlabbattaglia@scottsdirectories.com

WEB: www.scottsdirectories.com

APPENDIX K

DUNN AND BRADSTREET

Richard,

Looks like we finally got each other's email addresses!

Two things to clarify: First, the lists come with one top level decision makers when you purchase a marketing list(could be the president, owner, etc.) --- Deeper more specific decision makers are only available on our online databases.

Second, email address are not available for any contacts in our database due to privacy and spamming laws that have been passed.

The only other thing I need from you is to see if there are any industries you would like to include or disclude for the criteria. I have attached an SIC code table.

The cost for the 1000 names would be \$321. It will give you Name of the Company, Address, Phone Number, Mailing

Address, Top Level Contact, and SIC code.

Any other questions give me a call. Thanks.

A.J. Burman
Business Information Consultant
Hoover's Online ---- DNB Canada
5770 Hurontario Street -11th Floor
Mississauga, ON L5R 3G5
Phone:905-568-5929
Toll free: 1-877-520-7804 ext. 5929
Fax: 905-568-6279
www.hoovers.com

www.dnb.com

Now available at Hoover's:

Access Hoover's Salesforce.com integration! Please contact me for details.

APPENDIX L

PROFILE CANADA

Profile Canada Custom List

Dear Richard,

Based on your criteria....

Headquarters

Private Companies

English Speaking

100+ Employees

We found 1,560 Companies.

The cost of an Exportable Excel File would be \$624.00

Regards,

Niall

Niall Mac Mahon

Account Executive

Owen-Media Partners Inc.

PH. (905) 569-2243 x 235 / FX. (905) 593-8325

TF PH. 1-877-463-6284 x 235 / TF FX. 1-866-605-7333

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