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## **Abstract**

Current paper explores initial choice of a strategy by Russian auditors if accounting statement provided by client's management does not reflect the real financial situation of the company and auditor requires further information disclosures. Specifics of the conflict management in Russian audit companies, differences between Western and Russian audit negotiation, and strategies preferred by Russian negotiators at audit initial stage, were under discussion in the current paper. Auditor's perception of the contextual circumstances and effect of initial conditions on the choice of specific tactics and strategies among Russian auditors was an asset for the analysis.

Five strategies, that can be accordingly grouped into integrative (expanding the agenda, problem solving) and distributive (contending, conceding, compromising) strategies, are taken under research. Current paper measures Russian auditors' intention to use these strategies along with corresponding tactics. Most of the previous studies conducted among auditors in Western Europe and Northern America confirmed the fact that auditors would prefer using integrative strategies. The results obtained from nine in-depth interviews and quantitative evaluation confirmed the assumption, that Russian auditors would also prefer using integrative strategies when entering negotiation, irrespective of circumstances.

Despite the existing problems of corruption and grey market, Russian audit is becoming more independent and shifting toward Western practices. Informal practices and corruption are still evident in Russian business environment, but should rather be seen as means to achieve the goals in the situations where formal rules and structures work imperfectly. Russian auditors are forced to operate under vulnerable and unstable market conditions due to the short history and inexperience of an independent Russian accounting system. Along with the need for credible financial statements and trustful professional assessments, the number of independent auditors is strongly growing. Strong behavioural change can be observed confirming the fact that Russian auditors are becoming more experienced and are prepared for further changes.

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# 1. Introduction

Current paper focuses on conflict management and initial negotiation strategies, which are chosen by the auditors when communicating with the clients. Only limited number of studies focused on audit- and accounting negotiation during the last decades. Research on audit-client conflict management confirmed, that client's final financial statement is materially affected by a bargaining process between the parties (Hatfield, Agoglia, Sanchez 2008, p. 1185). That is why, the choice of negotiation strategy and ability to resolve the conflicts has not only social but also material value. As in any type of negotiation, auditor and client's management have to face different stages and aspects of the bargaining process. Despite the high importance of the topic, only few papers analyse all stages of negotiation at once, due to the very broad nature of the problem. Current paper will concentrate on the first stage of negotiation process and an initial bargaining between client and auditor.

Most of the previous articles analyse the stages of auditor negotiation separately, providing an explicit overview of each: negotiation between audit partner and client management at pre-audit phase, initial choice of the negotiation strategy and tactics, effects of the timing of auditors' adjustments or any other stage. Despite the fact, that all conducted studies give a deep insight into the negotiation process and steps, identifying the problem solving and conflict management, they are relatively geographically limited and concentrate mostly on the audit companies functioning in the Northern America and Western Europe. The results of these studies are hard to be transferred to other markets and implemented in other cultural settings. Negotiation process in audit and accounting setting in the Eastern European and Russian business environments was studied to the limited extent only and remained rather under-researched topic.

Russian market is one of the biggest and most important markets in the world, however, the business environment remains obscured and complicated to understand, especially when making a research on the auditor-client accounting negotiation. There are many reasons why Russian market is considered to be one of the most interesting environments for negotiation process researchers. From author's point of view, one of the most exceptional issues in Russian everyday life and business setting is the Soviet legacy. Traditions have a strong influence on both, personal communication and professional interaction between auditors and client management. Whole negotiation process from the initial stage until the final report is

strongly influenced by subjective interpersonal relations, which play an important role in Russian business culture.

Another important issue, that differentiates Russian accounting negotiation from Western, is connected to a very short experience of Russian companies in conducting and using an external audit. In contrast to Western corporations, Russian firms have less than thirty years of experience with an independent form of organisational financial controlling. A lot of conflicts, which arise between auditors and clients, can be actually resolved by implementation of audit know-how, long-time partnership and high degree of trust between auditor and client. These and other factors relevant for the conflict management and successful negotiation depend to the large extent on the professional experience of the parties and preparedness for a long-term co-operation.

When conducting a study on auditor-client negotiation, one should keep in mind, that auditor partner has to be in contact with a client management during the whole audit activity, starting from the pre-audit phase until the release of auditor's final opinion on client's financial reporting. Even after expressing auditor's opinion on client's financial statement parties usually do not dissolve partnership and communicate further on optimization of client's financial processes, possible adjustments in financial reporting in the future, and reappointment of auditor for the further control activities. Considering the fact that the most of the conflicts arise during the pre-audit phase, current paper will take it closely under research and concentrate on the first stage of negotiation process and strategies auditors prefer to implement initially.

Previous auditor-client negotiation studies assume that there are general strategies which are used by auditors at the initial stage of negotiation process. When resolving the disputes regarding the financial statement of a client, auditors aim to choose a strategy which best corresponds to all available information provided by the client and is related to the perceptions of an auditor about client's financial situation. Both parties are usually aware of information asymmetry and limitations caused by the environment, nevertheless, both auditors and clients often underestimate an importance of these factors. Informational asymmetry can actually arise at any stage of the negotiation process, however at the initial phase it can influence a whole decision process leading auditor or client to choose inappropriate strategy which consequently results in tough negotiation and suboptimal solutions.



The auditor-client negotiation is a bilateral process and can be studied in terms of a mutual problem solving from the client's and auditor's point of view. Current paper discusses the problems related to a conflict management from auditor's perspective and one's experience in conducting negotiation with the client. Audit companies usually have more than one client at once, thus having more experience in resolving the disputes on accounting issues than companies conducting general business activities. Besides, the final objective of an audit process and corresponding negotiation is presentation of an auditor's opinion on the financial statement of a client. Generally, auditor would have more power to influence the communication process and convince a client to make bigger concessions, because client is usually obliged to disclose all documents necessary for the audit. Nevertheless, sometimes client refuses to provide the required documents and auditor has to make a remark in the final opinion.

Taken into consideration all information provided by a client, being aware of information asymmetry and environmental influence, audit process requires deep understanding of client's financial situation not only on the material but also on social level. After primary control, auditor reports to a client management whether company's accounted statements correspond to the actual financial situation. Auditor has to make a clear vision of the real financial situation, ensure that all necessary information is included, all relevant documents and contracts are provided, and whether client's report corresponds to the principal accounting standards, such as state-level regulations and financial standards. Recently, Accounts Chamber of the Russian Federation set very strict and comprehensive regulations on conducting financial accounting, which facilitate the independent audit activities, increase credibility of companies' financial statements, and reduce the problems of grey market in Russia.

Russian auditors have to face similar problems during an accounting negotiation with the clients as their Western colleagues due to a professional nature of such communication. Russian legislation is continually complementing and updating the accounting standards with the new regulations, driving Russian accounting toward international financial standards, reducing a corruption and making audit-client negotiation more transparent. Nevertheless, auditors in Western and in Russian accounting setting have to face similar problems when conducting audit activities, such as information insufficiency and client's accounting statement deviation from an actual financial situation. Russian and Western auditors have to negotiate with clients, resolve the disputes and find jointly beneficial solutions. An initial

stage of every accounting negotiation is of crucial importance. The chosen strategy can, however, be later adapted in accordance to the situational changes. Current paper explores the initial choice of a strategy if an accounting statement provided by a client does not reflect the real financial situation of the company and auditor requires further information disclosures.

One has to differentiate between internal and external audit which require different conflict management strategies. In Russia and other economies in transition, an external audit and controlling of financial statement have less experience than in Western economies. Since the breakdown of the Soviet Bloc, governmental banking and security systems for corporate control have only limited access and influence in the private sector. It is common for Western companies to pay a lot of attention to an internal audit and correctness of the financial statements (Iwasaki 2013 p. 1), whereas external audit serves rather an advising function in order to increase the financial efficiency. Russian companies still perceive external auditors as advocates and mediators when interacting with state-level taxation authorities. In contrast to Western companies, Russian enterprises often understate their financial reports in order to avoid paying too high taxes and as unfair perceived bureaucratic costs. Nevertheless, Russian economy is quickly changing and requires credible financial reports and independent auditors more than ever.

When analysing Russian business environment, one has to be aware of the importance of the contextual factors. According to Hofstede (1980), Russia is a high-context country, where background, environmental and personal attitude play sometimes even more important role than pure facts and data. Current paper aims to study the specifics of a conflict management in Russian audit companies, find out the differences between Western and Russian audit negotiation and consequently investigate the strategies preferred by Russian negotiators at the initial stage of an audit. The fictive case along with variables describing an initial strategic choice has been introduced in order to analyze auditors' intended behaviour and decisions (Gibbins, McCracken, Salterio 2010; Gibbins et al. 2001). Auditor's perception of the contextual circumstances and the effects of the initial conditions on a choice of specific tactics and strategies among Russian auditors will be an asset for the analysis in the current paper.

## **2. Evidences from General Negotiation Literature**

### **2.1 Demarcation of Negotiation Stages**

Negotiation process has been previously studied to the large extent and described by numerous authors mostly in generic sense. The general negotiation literature distinguishes between three main phases: pre-negotiation, negotiation and post-negotiation (Lebow 1996). In accounting negotiation, parties are communicating constantly while auditor is controlling client's financial reporting; during this process, the problem of substantially different goals may arise between negotiating parties. If such disputes arise, pre-negotiation phase begins. Negotiating parties have to assess a situation, depth of the conflict, decide on the range of possible outcomes, evaluate the alternatives, opportunities, limitations, and set the goal which reflects their desired results.(Thompson, Hastie 1990, p.103)

At this point, both parties decide their limits or reservation points, where the costs of agreement are higher than the costs of no agreement. This point is determined by each party and achievement of this point held to be unfavourable for both parties. The reservation point of auditor could be accepting client's position by making minor or no adjustments in a financial statement, accepting a deviation from the accounting standards and setting one's reputation under the risk. For client, on other hand, reservation point implies termination of a relationship with auditor and appointing a new auditor to express professional opinion.(Bame-Aldred, Kida 2007, p.498) In real-life negotiation, however, defining the reservation point is quite a challenge for negotiators. Auditors and clients are not always sure about one's own reservation point; moreover, they usually underestimate an importance of measuring and estimating the reservation point of an opponent. (Raiffa, Richardson, Metcalfe 2002, pp.126-128)

It is essential for negotiators to know exactly one's own and opponent's reservation point, because this is the level below which the negotiation outcome in any case cannot be concluded. It is an extreme point in every negotiation and should be carefully considered. For auditor it is important to know when one should leave the negotiation with client and terminate the audit activity. At the same time, auditor should be aware that client can leave the table of negotiation, cut off the partnership and reappoint a new auditor when it reaches its reservation level. Before choosing a plan of action, auditor has to obtain understanding of client's preferences, value trade-offs, true limits and objectives. Theoretically if auditor

understands the true motives of the client, one will reach the best solution and enjoy a better outcome than initially expected. Nevertheless, in practice, this situation is almost impossible and there will always be some irrationality, such as either intentionally hidden motives or unintentionally undisclosed information.

Some authors suggest that the most important aspect of bargaining process is an interpersonal relation between parties. As a matter of fact, personal problems tend to negatively influence perception, emotions and communication during the business communication. It is important to consider the psychological aspects of auditor-client negotiation, to understand the general patterns of negotiated issue, consider the true interests and goals of a partner, and come to the mutual understanding of a conflict. (Fisher, Ury, Patton 1991, p.22) Even though the perception of mutual understanding is usually only subjective and based on auditor's estimation, it definitely helps one to discover possible threats, improve the power of negotiation arguments and choose correct strategy.

Besides determining one's limits and objectives during pre-negotiation phase, parties have to decide on strategy and tactics required to achieve their goals. The choice of an initial strategy influences the whole negotiation process as well as future relationship with a partner. According to the available information, situational context and circumstances, parties have to choose the bargaining strategy, which can later be changed or adapted according to the actual situation. Current paper will discuss this problem later in details. The second phase, the negotiation itself entails following the chosen strategy, implementation of tactics to attain the objectives, reaction to the offers of an opponent and adaption to the changes in bargaining situation. (Bame-Aldred, Kida 2007, p.498).

During post-negotiation in accounting setting, audit partner and client's management approve their agreement and confirm once again all details related to the achieved solution. In audit-client negotiation, this stage usually suggests a confirmation of an agreement upon revenue recognition – client reports the net income based on agreement and auditor signs an audit opinion. A solution is usually self-executing, that is why there are only few studies describing this stage of a negotiation process. (Bame-Aldred, Kida 2007, p.498). Current study will not investigate a post-negotiation process, nevertheless, in the future research a relationship between auditor and client management during a post-negotiation phase and after it, could be of high interest.

Preparation before and during the pre-negotiation defines the most important issues to be traded on, provides auditors with information on what outcome can be expected and whether it is even feasible to enter the negotiation process. Preparedness of the auditors at this stage is one of the most relevant factors for the success of the entire bargaining. Inability of auditor to assess the real situation will lead to inefficient communication and suboptimal outcome for both parties. (Thompson 2001; Pruitt, Carnevale 1993) This assumption was also confirmed by the auditors who participated in current study.

## **2.2 Elements of Negotiation Analysis**

The most popular and commonly used classification of elements in negotiation analysis elements was introduced by Sebenius (1992). His findings were afterwards broadly used in the general negotiation literature and differentiate between four elements: interests, issues and positions, alternatives to agreement, creating and claiming value, and changes in negotiation. But there are other researchers who introduced their own vision of negotiation elements in general negotiation literature and which are of a very high importance when talking about accounting negotiation. For example, Stephen Weiss (1993) introduced his triangle, which consists of three elements: relationships, behaviour and influencing conditions. Another vision of negotiation elements was introduced by Fisher (CMA 2003) and it includes seven elements: relationship, communication, interests, options, standards, alternatives and commitments.

As one can notice, the elements of negotiation presented by different authors are substantially similar despite various formulations and can be applicable not only in the general negotiation analysis, but also when describing the specifics of accounting bargaining. Based on previous researches, the combined list of negotiation elements can be presented. The elements could be: interests, issues and positions; communication and relationships; alternatives to agreement; creating and claiming value; and changes in negotiation. Basically, this classification corresponds to the one presented by Sebenius (1992), including additionally communication and relationships. This element is important in context of the current study due to the cultural specifics of Russian negotiation and accounting setting. The whole structure summarizes the essential elements introduced in general negotiation literature presented in previous researches and points out the important problems in accounting negotiation.

First element, which indicates interests, uncovers negotiator's wishes, expectations and goals in negotiation setting, in other words interests reflect what negotiator really wants to achieve. Usually there are several goals supported by interests, that negotiator wishes to achieve. However, interests can be contradicting. (Lax, Sebenius 1986a, pp. 73-74) Economical and socio-psychological interests stand often in conflict, because satisfaction of each type of interest requires different negotiation strategy- what is good for economical interests, might be destructive for social. For example, in accounting negotiation auditor would like to remain good relations to the client in order to be reappointed in the future or become a business partner with the client, but this would contradict to auditor's professional interests and obligation to issue negative feedback and qualifying opinion on client's financial statement.

Issues are proxies for interests, but they do not indicate the same concept. Issue is a criteria which characterizes the object that is subject to discussion in negotiation. (Lax, Sebenius 1986a, pp.74-75) For example, when conducting the audit control, the interests of auditor are explained by the professional motivation and main reasons for participating in negotiation process. The main issues to be discussed in this kind of negotiation could be the clear-cut errors made by client's accounting staff, amount of allowance for doubtful accounts and other amounts which are the subject to professional judgement. Positions or "stands" are taken with respect to issues and interests (Sebenius 1992, p. 26). Sometimes negotiators assume that interests are perfectly aligned with issues and positions. However, this assumption may lead to the situation when negotiators are very stubborn wishing to convince the other party in the superiority and correctness of their positions that alternatives and new solutions cannot be worked out. Focusing on interests rather than on positions will give them better understanding of the mutual problem, allow negotiators to create the set of new ideas and lead them to the mutually beneficial result. But also the interests are not completely aligned with the issues. If parties have some conflicting ideological differences, it would be wise to use only narrow set of interests, in order to overcome possible disputes. (Lax, Sebenius 1986a, pp. 76-78)

The next element which is not included in the classic negotiation analysis but is relevant for the current paper is presented in form of relationships and communication. According to the general negotiation literature, relationship could be defined as a "state of connection between two or more people" and communication could be defined as "transfer of messages by speech, writing or other means" (CMA 2003, 2). Relationships and communication show "interactive nature" of negotiation (Weiss 1993, p.270). Relationship and communication between parties stipulate the success of negotiation process and the results. If the

communication between parties is easy and open, the possibility that the outcome will be satisfying and be perceived by both parties as being fair strongly increases.

Accounting negotiation literature puts even higher importance on communication between parties than general negotiation literature. Through communication parties are able to share valuable information, which in audit setting will in most of the cases be the main issue to discussion. As it was mentioned by all respondents who participated in the study conducted for this paper, the more the client and the auditor communicate and share information, the easier is the process of finding the optimal solution and the higher will be the joint utility. Besides, the process of bargaining is more agreeable when communication between parties is easy and open, and consequently this can foster long-term professional relationships. The strong earlier established professional relationship between parties makes it much easier for negotiators to reach an agreement. Thus the strong relationship shortens the negotiation time and facilitates the future deals.

As general negotiation literature indicates, the alternatives to agreement should be analysed before negotiations start. Each negotiator should make sure, that the proposed agreement “offers higher subjective worth than that side’s best course of action absent agreement” (Sebenius 1992, p. 27). Alternatives to agreement are important issue because they determine the best outcome which the negotiator will get if the current bargain will fail. Strong and favourable alternatives will increase the perceived power of negotiator. Negotiator should always control and update his or her information regarding the alternatives. Alternatives may change over time with new information, changes in competitor’s strategy, changes in political, economical or legal situation, etc. (ibid.)

Negotiators tend to fall into the groups, defined by different value direction: some negotiators create value, others claim and the negotiators who create and claim value at the same time. This is an important issue to keep in mind when speaking about joint utility and gains not only in general but especially in the context of accounting negotiation. Value creators prefer to use cooperative strategies which would increase the joint utility and reach mutually beneficial outcomes. They would try to avoid conflict escalations and impasses in negotiation. Value creators don’t assume conflicts as “fixed-pie” situations, but rather try to extend “pie”, make optimal decisions and reach the highest possible joint utility. (Sebenius 1992, p. 28) Honest communication and sharing information helps negotiators to derive great mutual value from the agreement. Bargainers treat process as solving mutual problem. This approach helps

them to go beyond the most obvious solutions, to find the new solutions, and to extend the “pie”. Finding mutual interests, leading fair communication and facilitating negotiation process are typical for value creators. They respect the needs and interests of each other and hold on mutually agreed norms and standards. (Lax, Sebenius 1986b, pp. 30-32)

Other type of negotiators claims value, which indicates that negotiators consider the bargaining process as tough and hard dilemma of dividing the “fixed pie” - the value claimed by one party implies less value for other party (Sebenius 1992, p. 29). Value claimers try to make one party win and other lose, because they declare that attempt to increase the joint utility is naive and not beneficial. Claiming value is typical for negotiators who don't want to make any concessions, and agree on only most favourable proposals. They wish to get advantage of other party by being tenacious and wait until other party concedes (Lax, Sebenius 1986b, pp. 32-33) Value claimers usually use competitive negotiation strategy, which leads the negotiation more likely into the standstill. If parties reach an agreement, it is possible that the outcome will be suboptimal and joint utility very low.

Typical for value creators' honesty and information sharing might be exploited by value claimers, but sometimes “competitive moves to claim value individually drive out cooperative moves to create it jointly” (Sebenius 1992, p. 30). In other words, through the changes in the initial strategy, value claimers can be transformed into the value creators. Sometime one or another party may take a position of value creator and value claimer at the same time. When discussing the issues which are more important for one negotiator then for another, the negotiator will tend to claim value in order to improve personal utility. For example, when discussing issues which are mutually important or more important for client management and less important for auditor, auditing party can make bigger concessions and create the value.

Each party can change the negotiation process by modifying the structure of the situation. This element of negotiations is very unstable, active and volatile. There are different influential factors that can change the context of the bargaining situation. Those can be environmental factors (Weiss 1993, p. 289), like changes in political, economical and legal systems. There can be also changes in other organizations which lead to new opportunities and alternatives. By changing one's own strategy and the set of alternative solutions, negotiators can change the whole negotiation process or even cancel it if the new alternative seems to be more beneficial.



Not only changes in environmental situation may influence the whole situation, negotiators themselves are able to change the context of negotiation by choosing another strategy or tactic. They can change the “perception of the game” - by pressure or persuasion they can make other party to follow the new direction of the negotiation process (Sebenius 1992, p. 31). Auditors can manipulate with counterpart’s perceptions by using their power relation, professional experience and notion of fairness. Auditor can change the context of bargaining situation by using one’s power adding some principal arguments and make it more favourable for auditor. As for example, when demonstrating the superiority of the state-level standards and necessity of disclosing the information and convincing the client to accept and perceive the new context of situation as being fair and legitimate.

## **2.3 Barriers to Negotiation**

### **2.3.1 Strategic and Tactical Barriers**

General negotiation analysis defines series of barriers and obstacles, which may reduce the overall efficiency and joint utility, or lead to impasse in negotiation. In their “Barriers to Conflict Resolution”, Arrow et al. (1995) describe three criteria, which define several possibility types to barriers to negotiation: strategic and tactical; social and psychological; and institutional, organizational, or structural barriers. Even though Arrow et al. describe the barriers in context of general negotiation, these barriers are important factor to take into consideration during the accounting negotiation. The first category includes strategic and tactical barriers. Inappropriate choice of negotiation strategy or tactics raises difficulties in obtaining efficient outcomes; the parties are forced to make suboptimal decisions and thus decrease individual and joint utility. (Mnookin, Ross 1995, p. 7)

In general negotiation literature, authors such as Kersten (2008, p. 2) define strategy as a “method used to organize the negotiation process in order to achieve its stated objectives“. Strategy describes the long-term goals. The choice of strategy is one of the most important issues in negotiation analysis, because the wrong strategy may lead to unsatisfying results for one party or both. For instance, in many cultures and situations the competitive strategy is inappropriate and socially unacceptable. (Kersten 2008, p. 43) One of such countries is Russia where the usage of competitive attitude will be perceived as aggressive and negotiators would probably fail in reaching the agreement. Bargainers should also be aware, that if one party

decides to be cooperative and other party to stay competitive, there is a high possibility that cooperative side will get exploited by competitive side.

Tactics are closely related to the strategy. According to Kersten (2008, p. 3) tactic is "narrowly focused plan of action or the selection of a specific activity undertaken to achieve a milestone or a particular reaction from the counterpart". In other words, it is a set of activities composed to achieve the short-term goals. If the overall direction of negotiation is defined correctly by strategy, the whole negotiation will be disruptive if the tactical decisions are not adequate. For example in accounting negotiation auditor may initially decide to choose cooperation and integrative strategy, in this case one would bring for instance other issues into the discussion in order to trade on them or try to bring all auditor's concerns about the issue out into the open with client management, try to work out the new solutions together and many other tactics supporting integrative strategy. However, if the client representative decides to stay competitive and use rather distributive strategy along with contending tactics, auditor would probably be exploited by negotiating opponent.

### **2.3.2 Social and Psychological Barriers**

Psychological and social barriers can be interpreted in a very broad sense and might include such parameters as cognitive biases; senses of fairness and equity; motivational barriers; cultural and social differences, etc. (Mnookin, Ross 1995, p. 10) All decisions are influenced by perceptions, subjective evaluation and judgement of the situation, and context in which the decisions are made. To judge and evaluate, negotiators use their cognitive abilities in both general and accounting setting. Kersten (2008, p. 91) describes cognitive ability as "person's perceptual capacity, such as conceptualization, reasoning, remembering and problem solving". Negotiators should keep in mind that people tend to use heuristics rather than rationally analyse the complete set of available information.

When making strategic and tactical decisions at the initial stage of negotiation and during the negotiation, analytical systems are much more time and resource consuming than operating with heuristics, which is fast and relatively cheap, due to their foundation on experiences and beliefs (Kersten 2008, p. 91). Using only heuristics in decision-making may lead to failures in the whole negotiation analysis, mainly due to the biases. Biases are systematic judgemental deviations from normative models (Kurtzberg, Naquin 2009, p.135). If the negotiator uses weak or inappropriate heuristics, the negotiation may reach an inefficient agreement or even impasse, because the thinking, judgements and expectations will be distorted by cognitive

biases. Thus, the cognitive biases preclude parties from making optimal decisions and reaching the highest utility. There are different types of cognitive biases (Kersten 2008) such as selective perception, anchoring bias, loss aversion and many others.

Such cognitive bias as selective perception can be seen as a barrier to successful negotiation in general and in accounting setting (Beyer et al. 1997, p. 717). There is a tendency for people “to see, and remember what their theories, beliefs, and expectations on one hand, and their needs, wishes and self-interest on the other hand, dispose them to see”. (Mnookin, Ross 1995 p. 13) There is a risk that negotiators will focus on the information, which is congruent with their already existing knowledge and expectations. Professional judgement of the financial report might be distorted if auditor concentrates on previously conducted audit reports which could have included the negative feedback. Availability bias impedes negotiators from choosing best opportunities, because individuals tend to select those parts of the whole information set, which are the most salient, familiar, vivid or simple to understand (Kersten 2008, p. 108). Auditors should always take into consideration all available information and constantly communicate with the client if some issue in their financial statement remain unclear.

Another important bias, which influences decision-making and negotiation outcome, is anchoring bias. Individuals use their reference points as anchors and rely on them in their decision-making. There is a risk for negotiators to anchor their judgement to a reference point and fail to adjust their judgement sufficiently by ignoring new information. In bargaining, first impression or stereotypes function as anchors for evaluating the whole negotiation in general and in accounting area. (Kersten 2008, pp. 114-116) If the accounting consultants or auditors fail to adjust their judgements according to the new information or context, there is a high risk of failures in the future predictions and forecasts. If parties are anchored to the obsolete information, they will miss a set of possibilities that might arise if the situation changes. Auditors and consultants should adjust their judgement according to the new available information, so that they will be able to make trustworthy forecasts and be a reliable counterpart.

Loss aversion is another important cognitive bias mentioned in general negotiation literature but relevant for accounting bargaining. In general sense, there is a tendency to cherish objects individuals own more than the objects they do not (Kahneman 2003, p.1457). Loss aversion is highly related to the endowment effect, which means that losing something is commonly

much more painful than having never attained it. (Kahneman et al. 1991, p. 194) This bias has to be taken into account during audit negotiation by both parties. Auditors or clients tend to evaluate their concessions to be higher than those made by counterpart. Controversially, negotiators tend to evaluate their demands to be much more reasonable than those made by opponent. This can negatively reflect the outcome of negotiation and blemish the future cooperation due to the perceived inequity and unfairness.

Besides cognitive biases, also motivation can serve as a barrier to negotiation. Motivational process consists of several parameters, which influence goal setting and goal striving (Barrett et al 2004, p. 425). Thus, the processes and results of negotiation are highly related to personal and professional motivation and efforts of all negotiation parties. Motivation can be described by egoistic and pro-social motives (Gollwitzer et al. 2011, p. 773). Egoistic motivation is presented by individuals using competitive strategies and individualistic motives (e.g., „fixed pie“ assumption, maximizing one's own relative advantage, positional commitment), whereas pro-social motivation is typical for individuals with cooperative strategies and social orientation (e.g., „win-win solutions“, information exchange, compromising) (De Dreu et al. 2002, p. 201; Gollwitzer et al. 2011, p. 773 ).

The pairs of egoistic negotiators will have more problems with reaching a satisfying agreement due to their preferences toward competitive strategies. Usually they are willing to maximize their own profit and not willing to make concessions. Their behaviour is similar to value claimers who prefer distributive strategies, but being more self-concentrated. The negotiation between egoistic parties is likely to have a lot of obstacles and impasses. In contrast, pro-social bargainers make concessions easier than egoistic negotiators, because they try to maximize the joint utility, and thus they concede if there is a risk of getting stuck in impasse. (Gollwitzer et al. 2011, p. 774) Honest, open-minded and flexible pro-social negotiators achieve higher joint utility than negotiators who use egoistic motives (De Dreu et al. 2002, p. 202). Negotiators would however often face a “concession dilemma”: they have to make reasonable concessions in order to reach an agreement and not to reach the impasse. However, there is still a risk for pro-social negotiators of getting exploited by counterpart; at the same time they would still make the best advantage of the whole “integrative potential” (Gollwitzer et al. 2011, p. 787).

When analysing the negotiation process one should not underestimate the importance of cultural differences between parties. This paper concentrates to the large extent on the

description of cultural differences between Russian and Western accounting and business environment. There are relevant differences in social and organizational cultures between Russian and Western businesses, so that when transferring the results obtained from the studies conducted in Western accounting setting to Russian, one should carefully consider the contextual equilibrium, validity and reliability of the methodology and data. The issue of different cultures has the highest priority in case of international negotiation, but even if all negotiating parties have similar cultural background, one should always remember that minor social and cultural differences may occur due to age, priorities, experiences, interests, strategies, etc. Since Russian society is very multinational (160 different nations are living in Russian Federation) and geographically scattered, there could be differences in negotiation behaviour between auditors from Eastern and Western part of Russia. This problem has to be researched further in the future research.

Participation international negotiation is much more complicated than negotiation within the same cultural area, due to several additional issues (socio-economic, geo-political and cross-cultural issues) which have crucial impact on negotiation process and strategy choice. (Sarkar 2010, p. 49) The most famous research about socio-cultural differences was conducted by Hofstede (1980). Hofstede's socio-cultural dimensions provide an extensive overview of national behaviour and culture, and help negotiators to choose the best strategy in each cultural setting. Negotiators with different cultural backgrounds will have to understand "culturally determined differences" in communication and traditions, and have to be able to exploit the best opportunities despite the cultural barrier. (Sarkar 2010, p. 49)

Negotiation is strongly influenced by culture and defined by values and norms. These help individuals to specify the relative importance of issues, set priorities, provide negotiators with unwritten rules, define "appropriate and inappropriate" behaviours, and help to choose negotiation strategies. (Sarkar 2010, pp. 49-50) Culture defines the context of negotiation and conceptualization of issues. The expectations from the negotiation and objectives are also influenced by cultural characteristics. The expectations of negotiation results fluctuate between cultures. For example, Russian and Asian cultures appreciate personal contacts and they would make bigger concessions in order to maintain good personal relationship and foster future dealings. In contrast, American culture is more competitive, so negotiators use more egoistic strategies, and don't pay much attention to maintain personal relationships. (Kersten 2008, Sarkar 2010) One can make an assumption that Russian auditors would rather choose value creating and pro-social negotiation behaviour, and make reasonable concessions

trying to maintain good relations with the client. On the other hand, Russians put place a high priority on emotional aspect of business communication, so that competitive negotiation strategy may lead to aggressive counter reaction.

The concept of fairness can be viewed as one of the barriers to negotiation, because it relies mostly on perceptions and experiences and not on rational judgement. Fairness is therefore often associated with “one or more heuristics” (Kersten 2008, p. 131). The result of negotiation reflects the economical and socio-psychological outcome of particular problem. Fairness, however, reflects the degree to which, parties perceive and judge negotiation as being fair, and income as being equal. Notion of fairness is often viewed as influential factor, because it coordinates the expectations of negotiation and dynamics of negotiation process, helps negotiators to shape their behaviour and to decide whether the outcome is satisfying for them. If the negotiation is perceived as being “fair”, future cooperation will be facilitated. (Albin 1993, pp. 223-224)

It is, however, difficult and often even impossible to design agreements that will satisfy the concerns for justice and equity of all parties. There is no commonly used definition of fairness concept, that is why it is complicated to reach an agreement on notion of justice, e.g. whether it will be 50:50 split, need, contribution, equity, etc. Nevertheless, problems may arise not only due to the definition of fairness concept, but also because of the “quantification” of agreement. For example, during the negotiation in general sense, the problem would arise due to the size of the party’s shares, and the extent of each negotiator’s contribution. In accounting negotiation, the notion of fairness will be of bigger concern, for example, when making the net income reducing adjustments. Auditors would ask the client to reduce the overstated net income due to the deviations from the accounting standards; the client, in turn, might perceive such adjustments as being unfair and the quantity of required reductions too high. Individuals tend to consider their own sense of fairness as the template, or best perception of fairness; in other words, they perceive themselves fairer than the counterpart. (Albin 1993, p.225)

The definition of fairness is relatively subjective issue and should be investigated from different points of view. For instance, it is important to make a clear distinction between these to whom one should be fair, and these to whom being fair won’t be logical, appropriate or rational (ibid.). The notion of fairness has to be implemented to particular individuals according to the actual situation. As to the general negotiation literature, fairness is important in communication with family, friends and acquaintances, but rather inappropriate for

communication with aggressive opponents or enemies. (Kersten 2008, p. 131) Bargainers should consider carefully in which situations the complete openness is efficient and rational. (Albin 1993, p. 225). For example, sharing all available information with competitive company would not only irrational but even naive. On other hand, hiding information, lying, or bluffing may cause an impasse in negotiation because of the lack of necessary information. There is a trade-off between being naively fair and being completely unfair. Negotiators should carefully analyse, to which degree one should be fair with counterpart and how efficient the fairness will be before negotiations start. Nevertheless, in accounting negotiation parties are expected to stay fair and share all necessary information.

Deutsch (1975) introduced three major principles of fairness: equity, equality and need. Equity principle indicates that negotiating parties should contribute equally and resources should be proportionally distributed. Principle of equality notes that parties should receive the same or comparable share of outcome resources, no matter how much they contributed. The last fairness principle holds that gains should be proportionally distributed based on the “strength of need alone, so that the least endowed party gets the greatest share”. The choice of principles depends on age, social status, gender, education and other socio-cultural and geo-political factors. (Albin 1993, pp. 238- 239) If two parties originate from different cultural or political environments, they will encounter bigger problems with notion of fairness. As it was noticed earlier, it is difficult and often impossible to identify the “correct” notion of fairness and justice, because each party is confident that its definition and principle of fairness is the best indicator of justice. In accounting negotiation, the client representatives might perceive the concessions made by them as being bigger than those made by the auditor, consequently identifying the negotiation outcome as being unfair.

Allocation of gains is influenced not only by senses of fairness, but also by power of negotiators, which indicates the success of bargainers. The most popular definition of power in general negotiation literature was introduced by Max Weber (1947): “power is probability that a person can carry out his or her own will despite resistance”. The greater power one has the bigger share of resources he or her can obtain. Negotiators influence other party by using different tactics and strategic skills. Tracey and Yukl (1992) have introduced typology of influence tactics. Negotiators use pressure (use of demands or threats), legitimating (legitimization of request for compliance), exchange (use of explicit or implicit promises), coalition (using other’s help to persuade or pressure), integration (making good impression before negotiations start), rational persuasion (use of logical and factual information to

persuade), inspirational appeal (appealing to the counterpart's values and ideals), consultation (use of counterpart in decision-making process and implementation of request) and personal appeal (appealing to the sense of loyalty or friendship before negotiations start). (Fragale et al. 2005, p. 799)

The more power negotiator has over his or her counterpart, the better outcome it enjoys. Manipulating with power relation is important issue in regard to notion of fairness. There is a number of different tactics to ensure and increase negotiator's power. By using, for example, rational persuasion, one can persuade counterpart that both parties made equal concessions and the outcome is completely fair (ibid., p. 814). The decision, which tactic is the most appropriate in concrete situation and context, whether it will be persuasion or pressure, should be analysed in detail. In accounting negotiation, auditors may manipulate the client due to the longer professional experience or by using the power to issue qualifying opinion on client's financial statement. Client would also have power over the auditor forcing him to make concessions in order to be reappointed in the future or becoming the business partner with the client.

### **2.3.3 Institutional, Organizational, and Structural Barriers**

The third type of barriers described in the general negotiation literature by Arrow et al. (1995) is a group of institutional, organizational, or structural barriers. This type of barriers indicates that besides internal factors, which influence negotiation, the external factors, like bureaucracy, institutions, macro- and micro economical factors, exchange rate and inflation fluctuations, and other, have crucial influence on negotiation. They describe the contexts within which negotiations are likely to be conducted. Conducting international negotiation might be very risky, that is why negotiators have to make the detailed research and get familiar with political, legal and economical situation in the country of interest. For example, some countries have diplomatic tensions and any kind of discussions with business partners from those countries can be considered as socially and politically inappropriate, and may lead to unsuccessful business partnership. (Mnookin, Ross 1995, p. 19) When talking about Russian accounting negotiation, one has to be aware of political, economical and especially legal situation due to the specifics discussed later in this paper.

A lot of structural problems arise when negotiations involve multiple interest groups. It is an important issue in negotiations which include sensitive topics. General negotiation literature brings such examples as waste disposal sites, alcohol and drug production, and other problems



which involve extensive cooperation with environment protection agencies and health care services, and which require massive social responsibility programmes. Conducting negotiations of sensitive topics is extremely complicated, because there is always great pressure of publicity as well, a lot of legal issues, and political pressure. (ibid., p. 20) For auditors this could be a matter of concern when controlling, for example, the enterprises which are involved in the environmental protection programmes and have environmentally dangerous production, so that the credibility of the financial report is a matter of concern for the large circle of the actors, Every accounting negotiation is influenced by the interests of the third parties, such as investors, creditors, other partners, for whom the financial reporting of the company is of concern.

To conclude, barriers are inseparable part of negotiation process. They preclude negotiators from seeing the whole set of possible perspectives, prevent going beyond the most obvious solutions, expanding the set of possible results and force negotiators to make suboptimal decisions. In accounting negotiation, explicit analysis of counterpart's cultural and social background, assessment of political and economical situation in general and with respect to the specific industry and company, and knowledge of legal aspects will help negotiators to achieve the best outcome and highest joint utility.

### **3. Auditing Standards and Their Influence on Negotiation Process**

Accounting negotiation is influenced not only by internal auditor-client related factors, but also by external factors, such as legal regulations and standards. Conflicts between auditors and client's management often arise due to the nonexistent or misinterpreted accounting and auditing standards, such as International Financial Reporting Standards (IFRS) (Gibbins, McCracken, Salterio 2007; Beattie, Fearnley, Brandt 2004) Previous studies on accounting and audit negotiation mostly took into consideration generally accepted accounting principles of the United States (US GAAP). Due to the fact that the most of the articles were written on the basis of North-American auditing negotiation, these studies implied that US GAAP was perfectly in compliance with external factors influencing accounting negotiation.

Previous papers set the US GAAP as a frame for the research on accounting negotiation and as a proxy for determining auditors' behaviour when solving the conflicts. In 2012, the U.S. Securities and Exchange Commission (SEC) announced the final report of the working plan to move from US GAAP to IFRS standards and incorporate IFRS into the United States accounting standards (United States Securities and Exchange Commission 2012). IFRS acts as an external condition and constraint for the auditing issues. In addition to IFRS, each country has its own accounting principles, but in essence they all are in alliance with international standards and often companies prefer to use IFRS principles to conduct their accounting.

International accounting standards aim to connect the audit principles in different countries and to homogenize an accounting activity. Global standards increase the comparability and credibility of financial reporting and auditing activity, enhance cross-national cooperation and co-ordination, which consequently stimulates the flow of cross-national investments, expands the range of possibilities for cooperation and gives local companies a possibility to participate in the global market-oriented development. Regulatory capacities of the state-bound command-and control mechanisms have been a subject to discussions and critics, especially after such events as collapse of the Soviet Union (1991), Mexican (1994-1995) and East Asian (1998) financial crises. Global accounting standards gained the trust and acted as the new regulatory technique which overcomes the state-controlled regulatory boundaries and facilitate economic co-operation and co-ordination of the accounting practices despite national borders. (Mennicken 2008, p. 385)

Negotiation between auditor and client occurs if the IFRS (US GAAP, RAS or any other superior accounting standards) guidelines are misinterpreted or disregarded in the accounting activity of a client. Disagreements about accounting policies, information disclosures and financial estimates can be the main subjects to negotiation. If client management and auditor disagree, client has to provide the auditor with explanation and additional information of the reasons for not making the corrections into the financial statement. In this case, negotiations are necessary to resolve the disputes. (Tan, Trotman 2010, p.1207) Auditors are involved into communication with the client during the whole audit activity. This paper will investigate an initial stage of the negotiation, when an auditor and client have to communicate after a first control of client's financial activity which indicated inconsistencies in the financial reporting and its deviation from the accounting principles.

If the first audit control detected some discrepancies in the client's financial statement, such as clear-cut errors and net income overstatement, auditor would suggest some adjustments which will probably be not in compliance with clients' interests and even harm one's activity. Consequently, auditor would have to convince a client by using different tactics in order to make appropriate adjustments to the financial statement. (Perreault, Kida 2011, p. 535) In Russian accounting practice, the most important role plays Russian Accounting Standards (RAS), which differentiate to some extent from the IFRS, but similar to IFRS set the framework for the financial reporting.

For historical reasons, Russian audit and accounting principles were developed not by private sector and professionals, in contrast to the Western practices they were developed by the state-owned and state-level control bodies, and are closely related to the state regulatory standards. The primary users of RAS are mostly tax and legislative authorities, in contrast to the Western countries, where IFRS is mostly used by the private sector actors, such as management and third parties. During the last decade, IFRS has constantly gained its importance influencing not only RAS but also compulsory standards for certain types of Russian entities (e.g. open joint stock companies). During the recent years, significant progress was made to harmonize Russian Accounting Standards with International Financial Reporting Standards. Thus, in the last years RAS introduced new regulations on provisions, inventory, contingent assets and liabilities, segment reporting, cash flow statements, fixed assets, and many others. (Deloitte 2014)

Despite the large efforts made to harmonize two regulatory frameworks, significant differences remain between IFRS and RAS. Such, the fair value concept is not applied in RAS. Also, the methodology to calculate the deferred tax is different than in IFR Standards. In U.S. GAAP and IFRS required statement of recognized income and expense, and other comprehensive income, is disregarded in RAS. In 2004, the Ministry of Finance of the Russian Federation issued the “Medium-term concept for development of accounting and financial statements” (“Order No.180”), which aims to unify RAS and IFRS. Since then, significant progress in converging RAS with IFRS has been made, e.g. the new consolidation law, new standards on accounting for construction contracts; companies in the banking sector submit financial reports to the Central Bank of Russia which are much closer to IFRS, etc. (Ernst & Young 2009)

Nevertheless, there are still a lot of other differences between RAS and IFRS, which have to be confronted and overcome by Russian and Western private and public sector authorities in order to enhance the efficiency of a cross-border co-operation. Despite yet large differences, Russian and Western standards are similar concepts with regard to the materiality and consistency of the requirements that entities have to consider in their financial reporting. (Ernst & Young 2009)

During the pre-research phase (Appendix 1), author received important information regarding the practical implementation of the Russian Accounting Standards. According to the Managing Director of the audit company, who provided information during the pre-research, Russian audit system allows the usage of company’s internal standards, which are limited by the federal standards. There are two levels: the upper level is represented by the federal standards. Federal standards are developed by the Ministry of Finance, and every company is obliged to report its financial statement in accordance with regulations constituted by the state. The second lower level is represented by the internal standards. Each company is free to set its own regulations, which supplement company’s accounting policy and are in alliance with federal standards. Internal standards of each company, their implementation and correspondence to the Russian Federal Laws are controlled by self-regulated organizations and external audit firms.

Apart from the methodological and technical differences, accounting standards implemented in Western countries and in Russia serve as regulations and instructions for the companies to conduct their financial reporting. Auditors will have to give their opinion on accounting

activity according either to IFRS, RAS, or both. For controlling purposes it will not play an important role, whether International or Russian standards were taken as a model for the financial reporting of a client. Auditors will have to take into consideration the technical and methodological differences between IFRS and RAS, a purpose of an audit activity will not however be changed. Either in Russia or in any Western country, the audit is conducted to examine company's financial report by external independent organisation with an objective to form an opinion on whether the information presented in the financial report reflects the real financial position of the client company at given point in time. (PWC 2014)

Hence, the principles and objectives of auditor-client negotiation would also be relatively similar, disregarding whether IFRS or RAS standards were implemented in client's financial reporting. A deeper understanding of methodological differences between Russian Accounting Standards and IFRS is crucially important for the accountants, auditors, financial consultants and analysts in Western and Russian business setting. Nevertheless it is of less importance for the purposes of the current paper. It is assumed that in Russia, as well as in any Western country, accounting negotiation implies communication between external auditor and client management concerning the financial reporting. Such audit-client negotiation includes several stages and very likely more than two parties only. Besides auditor and the client, accounting negotiation may also be of concern for investors and other information users, who are however not directly involved in the negotiation process (Gibbins, Salterio, Webb 2001, p.536).

## 4. Specifics of Audit Negotiation

During an initial stage of the negotiation process third parties to whom financial report may be of concern take part in auditor-client negotiation indirectly influencing the process and the final results. Investors may convince or intimidate client company management to increase its net revenue in order to get bonuses and higher ratings. In this case, a negotiation between auditor and client will concern the interests of more than two parties, whereas the interests of the third parties will be indirectly (sometimes also directly) represented by client company management.

Gibbins, Salterio, and Webb (2001, p. 537-538) presented the model describing the negotiation process between auditor and client which along with the interests of the third parties encompasses an influence of the external factors and contextual issues. In the Three-Element Accounting Negotiation Process Model they concentrate explicitly on negotiation and leave out of the research the routine process of audit control and common auditor's advices regarding client's financial reporting, accounting policy and information disclosure. As it can be concluded from its name, the model consists of three elements: accounting issues, auditor-client process and accounting outcome. Auditor-client history and any further interaction between parties are left out of the model. Additionally, authors included contextual features influencing accounting negotiation.

Contextual external conditions, such as GAAP, IFRS or RAS, statutory powers and deadlines set the constraints to the negotiation and limit the variability of possible solutions. Weak or inexistent standards may lead to longer conflict management, several negotiation rounds and problems in the conceptualization of a problem itself and fairness of the results. Strict regulations such as IFRS would make negotiation more efficient and will help parties to achieve mutually acceptable and fairly perceived outcome. Thus if auditor and client cannot agree upon the degree and precision of the disclosure, standards would play the most important role in communication - parties would constitute the size of an estimate, and the precision and degree of a disclosure according to the accounting regulations. Statutory powers of legal, regulatory, ethical and contractual authorities affect to the large extent negotiation around accounting issues. Investors, creditors, tax authorities and other third parties rely on financial statements which means, that the parties negotiate to the certain extent on behalf of others' interest. (Gibbins, Salterio, and Webb 2001, p. 540)

IFRS, GAAP or RAS set the frame not only for the technical and methodological side of the accounting negotiation, they also aim to limit auditor's possible concessions which one would have made in order to maintain a good relationship with the client. If concessions are made during negotiation, it leads to a final agreement with client management which is much lower than originally expected. In case of the most important clients of an audit company, auditors would make bigger concessions in order to maintain the longstanding relationship and increase the long-term value. In accounting negotiation, offering concessions which are inconsistent or do not correspond to the general accounting standards (GAAP, IFRS or RAS) is a highly inappropriate practice, which jeopardizes auditor's professionalism, possibly leading to litigation, regulatory sanction, and reputation loss. (Tan, Trotman 2010, p.1208)

In audit setting, it is sometimes hard to use some general regulations and standards as an alignment due to the specifics of a particular problem occurred after the first audit control. General standards may be absent or provide no explicit guidance to solve the dispute. There might also be an ambiguity in estimates and interpretation of standards. In such situation, there are no specific regulations and one cannot assert with certainty which solution is the best or the most efficient. One cannot also be sure which treatment is appropriate and to what extent one should make concessions or contend. Such disputes on the problems, which have no specific solution in the ambiguous situation, are sometimes called "grey issues". In this case both parties have to be prepared to give up on some matters and concede in some points of negotiation. (Tan, Trotman 2010, p.1208)

Even if both parties would prefer using some contending and aggressive negotiation strategies in order to resolve the "grey issues", one has to expect a possibility of making some small concessions. For example, a situation when after initial control of client's financial statement auditor estimates some adequate write-down of the net income and determines the magnitude of an adjustment, which is an antagonistic problem, and thus, rather "grey issue" to discuss upon. Auditor is aware of client's unwillingness to make the write-down, preparedness for intensive discussion and expectation of auditor's concessions. In order to convince client management to make the net-income decreasing adjustments, auditor has a number of possible action plans.

One of the options could be, that the auditor draws client's attention to the inconsequential audit differences in the insignificant items discovered during the first audit control and waive these, thus making some concessions on less important issues in order to bring an attention of

the management to the more significant items and convince the management team to concede on them. Another option is, that auditor could start with a higher write-down and more extensive adjustments, give the client chance to bargain and then concede until the appropriate write-down is reached. (Tan, Trotman 2010, p.1209)

Interpersonal relations should also be taken into consideration when talking about accounting negotiation. Considering the fact, that auditor and client are likely to share not only the risks mentioned in the general negotiation literature but also the legal liability risks, accounting bargaining can be seen as a joint process in contrast to many other types of negotiation. Due to the higher material risks, interpersonal relationship between accounting negotiation participants differentiate to the large extent from the relationships arising during general negotiations. (Gibbins, Salterio, and Webb 2001, p. 540)

Individual interests of parties may, for example, enclose auditor's wish to be reappointed and to build up a business relationship with the client beyond auditing activity. At the same time, client is interested in minimizing audit costs, and winning the investments and capital owing to an attractive financial statement and auditor's unqualified opinion. If individual interests of the parties are in compliance with each other, parties would achieve higher individual and joint utility. The negotiation is also affected by the capabilities of the parties, which in the broader context means, that auditor's knowledge and information gathering is restricted by an audit fee, cost and a sheer size of client's financial report. At the same time, auditors gain more power due to the extensive experience and know-how in accounting methods and standards, so they can compare the practices and activities of several clients. (ibid. p. 541)

When talking about main elements included in the Three-Element Accounting Negotiation Process Model (Gibbins, Salterio, Webb 2001, p.537), the model assumes that the bargaining process starts with a negotiation issue which frames further process and which sets an attitude of the parties and their anticipation of the conflict. An accounting issue to be negotiated on can revolve around identifying the accounting implications, materiality of the problem, how the issue arose and which party first identified the problem.

Second element of the model represents the negotiation process. Authors included two essential factors, which derive their origin from general negotiation literature, but are relevant for the accounting negotiation and therefore are of a concern in the current paper. According to the general negotiation literature, negotiators have their own interests and are self-oriented rational agents. Bargaining process is a calculated, strategic activity which rests on each



participant's experience, knowledge and perception. It is influenced by the preferences and beliefs of each party and takes time to proceed. Definition and extent of rationality has been under discussion in an enormous number of articles, so current paper will not deepen into the problem definition and demarcation, and will assume that each party, auditor and client management, act rationally and every decision is reasonable and efficient. (Gibbins, Salterio, Webb 2001, p.538)

Another factor influencing the negotiation process and which should not be underestimated is information asymmetry. Information, which parties use for their decision-making, is unequal from the beginning, when the negotiating issue is just about to be framed, and remains unequal during the further negotiation process. Informational asymmetry arises due to the initially different perceptions, beliefs and expectations. (ibid.) None of the parties knows the complete set of true objectives and purposes of the opponent. Even if one party entered an open negotiation and revealed one's true motives, negotiation partner can never be sure about the reliability, trustfulness and extent of provided information. Theoretically, the informational symmetry can be achieved, when both parties disclose their real goals and provide each other with all possible information. In the real life, this situation is impossible to achieve due to the hidden motives and other factors influencing unequally both parties.

Accounting negotiation process comprises also the duration of the bargaining process, number of parties involved in the negotiation, an indirect influence of the third parties, who are not explicitly participating, but are interested in and influenced by the results. Important factor having an impact on the negotiation process is the seniority of people involved on behalf of both, an auditor and a client. Also the Russian experts, who participated in the current study, confirmed the assumption, that if the opponent has large accounting experience, negotiators would choose different tactics than with an inexperienced partner. The last factor influencing negotiation process involves initial beliefs of the parties about possible outcomes as it was discussed earlier. (Gibbins, Salterio, Webb 2001, p.538)

Third element of the negotiation model of Gibbins, Salterio and Webb (2001) drives attention to the bargaining outcome. General negotiation literature differentiates between two broad types of negotiation strategies: integrative and distributive. Current paper will further concentrate in detail on integrative and distributive bargaining, and describe in detail the process of conducting each type of negotiation, including strategies and tactics implemented by auditors in order to achieve their objectives. Distributive bargaining leads to a situation

when one party or even both lose their positions and achieve less than they actually could have achieved. In contrast, integrative bargaining aims to increase joint utility and enlarge the value of the outcome for each party. Often integrative bargaining leads to unexpected results and additional benefits, because during a negotiation process parties may incorporate other issues than it was originally planned. This approach provides extra space for bargaining and allows both parties to gain an advantage. (Gibbins, Salterio, Webb 2001, p.538)

Research on audit-client negotiation has confirmed that financial statements are materially affected by bargaining between parties (Hatfield, Agoglia, Sanchez 2008 p.1184; Perreault, Kida 2011, p. 534). Client management and auditor have initially different reporting objectives when being involved into the conflict which revolves around recognition of the revenue of the client. Previous studies of the auditor-client negotiation have shown that auditors have preferences for lower net income recognition (Smith, Kida 1991 p. 472; Bame-Aldred, Kida 2007 p. 498). Client's management position is usually completely opposite. Client's management would prefer having higher net income recognition due to the material benefits, so that client's representative will be more aggressive in pursuing one's objectives. Client's management would probably prefer showing higher revenue in the financial statement in order to get some bonuses and generate better image of the company and attract potential investors. Higher net income would help to achieve the incentive plans or higher stock prices. (Bame-Aldred, Kida 2007, p.499)

For the client, acceptance of the income decreasing adjustments and lower net income recognition would result in the real wealth loss. For the auditor, an acceptance of client's proposal for higher revenue recognition can lead to the mistrust and concerns about auditor's competency by the third parties. In fact if auditor accepts the misstatement proposed by the client and satisfies client's goals, reputation of auditor may be ruined and possibility of gaining new customers will be dramatically reduced. (*ibid.*) Research of the real auditor-related adjustments confirmed the fact that, on average, auditors have achieved their desired objectives and reduced client's pre-audit earnings and assets by amounts exceeding materiality (Kinney, Martin 1994, p.149). Given the initially different reporting objectives, auditor and client's management will inevitably face a conflict situation and will be forced to enter a negotiation to resolve the disputes.

## **5. Initial Strategy - Integrative and Distributive Strategies**

The general negotiation literature implies that an initial choice of the strategy has an impact on the whole negotiation process and results. As a matter of course, negotiators might make the adjustments in their strategy and change corresponding tactics, but the negotiation outcome would still be influenced by initial setting. Auditor-client accounting negotiation is also influenced by an initial strategy choice of an auditor and a client. Generally known, the word integration means unification of several parts into one. In the bargaining process, integrative negotiation would mean that the opponents have to work jointly to achieve mutually beneficial outcome. This process aims to resolve the conflict by allowing both parties to achieve a desired result, and during which, the negotiators act as partners who cooperate to find a fair agreement.

Current paper focuses on two main strategies, integrative and distributive. These have already been studied by several authors during the previous decades. First authors to introduce the concept of two main strategies were Walton and McKersie in 1965. In their work “A Behavioural Theory of Labor Negotiations” they postulate that an objective of distributive bargaining is “to resolve pure conflicts of interest” (1965, p.4). Negotiators implement integrative bargaining if they try to “find common or complementary interests and solve problems confronting both parties” (ibid.). Walton and McKersie remained neutral in their opinions and did not favour any type of strategy. Originally proposed distinction between two opposite strategies did not suggest one type being superior to the other, during the next decades, however, researchers and authors came to the conclusion that integrative strategy along with its tactics allows for “better compromises”, “win- win solutions”, “value creation”, and “expanding the pie” (Fisher and Ury 1998; Pruitt and Rubin 1986; Lax and Sebenius 1986a; Sebenius 1992; Thompson 2001; Lewicki, Saunders, Minton 1999).

Both strategies have their advantages and disadvantages, as well as opportunities and limitations, which negotiators are influenced by. The work of Walton and McKersie (1965) refers to collective negotiation between labour and management, though the concept of conflict solution strategies can be implemented in broader terms, in other situations and under other circumstances. Qualitative differentiation between bargaining strategies has been a base for a large amount of descriptive studies which have been written since 1965. They all differentiate to some extent in their informational requirements and possible solutions, but they all are based on the basic principles of integrative and distributive strategies (Pruitt and

Rubin 1986; Lewicki, Saunders, Minton 1999). Besides qualitative research and descriptive studies, game theory provides negotiators with normative model of bargaining process.

Quantitative approach of the game theory to a negotiation process implies consideration of zero-sum and non-zero-sum games, which correspond to distributive and integrative strategy respectively. Negotiation analysis comprises descriptive qualitative analysis and normative game theory, providing bargainers with deep understanding of a situation and significant support in their decision making. Finding the similarities and bridging the differences between quantitative and qualitative theories is a main goal of the negotiation analysis, which allows constructing the models and developing negotiation support systems (Bui 1994; Teich and Wallenius et al. 1995; Rangaswamy and Schell 1997; Kersten 2001). Current paper will concentrate on the qualitative, descriptive theories and their practical application in case of Russian audit companies. The normative research as well as sequential formation of the auditor-client bargaining model, which can be also applied in Russian business environment, would be an important topic for the future research.

Auditor and client are often influenced by their companies during the bargaining process at the initial stage and further. If the financial report of an important client is controlled by the group of auditors, and conflict arises, the choice of the negotiation strategy of representative of the audit company will be strongly influenced by other colleagues. Thus, auditors are also involved in the collective negotiation inside the company. Besides, a relation between auditor and client can also be viewed as a business partnership, where client and auditor sign the contract for conducting the audit activity. The concept of integrative and distributive bargaining is suitable, when studying the problem of auditor-client conflict management.

Both strategies, distributive and integrative are employed by negotiators during the decision process; however, it became a conventional wisdom that integrative bargaining offers more opportunities for better and mutually beneficial outcomes. During the distributive bargaining, an objective of both parties is to divide a fixed amount of resources (Carrell, Heavrin 2006, p. 54). The “procedure for dividing a fixed pie of resources” (Bazerman 1986, p.123) continues until one, or neither, party “wins”. The goals of the negotiators are mutually exclusive due to the belief that there is limited and controlled amount of resources, leading hence to a conflict (Lewicki and Saunders et al. 1999, p.107).

Auditors assume that fixed range of solutions is available between auditor’s initial position and client’s assumed initial position when entering negotiation. (Gibbins et al. 2010, p.580).

In this case, an objective of an auditor is to achieve the full transparency of client's financial flows and to get a full overview of client's accounting activities. From auditor's point of view, distributive strategy assumes that either auditor achieves the disclosure of the information, or the negotiation or the further communication with the client will be terminated.

In contrast to the distributive negotiation process, integrative negotiation allows negotiators to search for further alternatives when initially chosen set of possible solutions leads to mutually suboptimal and unacceptable results. For example, Bartos (1995, p.49) created a model that assumed that two negotiating parties are highly cooperative but still cannot completely ignore their own interests. Bartos' (1995) model assumes that integrative negotiation has four incremental steps, which follow each other in a cycle, and the cycle continues and repeats starting from the first to fourth step, until a consensus is reached. As it is explained, when a four step cycle continues, flexibility is important in order to reach an agreement. Usually, both bargainers start negotiation by offering an option that has the highest payoff for one party and then the counter-offers are presented until the agreement is reached. It is important for both parties to be flexible and to change their initial offer in order to respond to a new offer.

If one party makes concession, the second is also expected to make a concession. Cooperation is of a very high importance, so that both parties must share as much information as they can in order to understand each other's interests. Bartos (1995, p.50) argues that flexibility is also required when the negotiator searches for alternatives. In contrast to the concession making, the search for alternatives is not a mutual process and implies no need for reciprocation. The negotiator might be searching for the new alternatives "without inducing similar behaviour in his opponent." Assuming, that both negotiators are rational players and looking for the most profitable solution, searching and working on the new alternatives is potentially beneficial even if an opponent is not directly participating in the search and development of the new possibilities.

Integrative bargaining implies, that interests of the parties are not mutually exclusive but rather mutually compatible, and bargainers will be able to exploit an "integrative potential" of negotiation in order to increase a "joint profit available to negotiators over and above the joint profit afforded by a fixed-sum solution" (Thompson 2001, p.46). Thompson introduced the concept of an "integrative potential" which corresponds to the problem of "expanding the pie", and is closely related to the value creation, which are the main aspects of the integrative negotiation (Thompson 2001, p.44). In case of fixed-pie situation or pure conflict, the value of

offers is always lower than the value the negotiators are willing and able to achieve. If parties agree to change their status quo and work out the alternative solutions with higher potential value of the offers, than even initially distributive negotiation will use an “integrative potential” and transform to integrative bargaining (Kersten 2001, p. 501).

Every negotiation, which is assumed to be integrative, can provide both, an auditor and a client with a possibility for “extending the pie” and achieving “win-win” situation. Nevertheless, parties often neglect the opportunities which “integrative potential” can offer, due to the unwillingness to disclose information about one’s real goals and possible trade-offs. Sufficient argumentation of one’s position, but also personal relations and trust play often a crucial role in exploiting the “integrative potential” and achieving mutually beneficial results. Negotiators should decide on the structure of negotiation, because some negotiations are initially distributive and their nature cannot be changed (Gelfand, Fulmer, Severance 2011, p. 496). Russian auditors often have to face the problem of unwillingness to disclose one’s real objectives due to the mistrust. Auditors can try to overcome the issues related to the mistrust by making an interpersonal bridge to the client. Current paper will further discuss in detail the role and importance of personal relationships in Russian business environment.

Fisher and Ury (1991) argue that integrative strategy helps negotiators to reach an agreement cognitively and emotionally. According to their statement, consensus is reached more efficiently and an agreement is mutually amicable. The efficiency of the model depends, however, on the situation. If the negotiation requires more basic approach, such as the distributive negotiation, then integrative negotiation would not be efficient. In this case concession making will not be reciprocated due to the fact that both negotiators would only be following their own personal interest. Although, if the situation involves multiple issues or requires mutual problem solving, as it usually happens in an accounting negotiation, then an integrative negotiation would be efficient.

According to Bartos(1995), an advantage of integrative approach is that it can improve the chances to reach mutually beneficial agreement. Nevertheless, it has also disadvantages, because a search for mutually acceptable agreement is more time-consuming than distributive solutions. And still there is a possibility, that reached agreement will not be the most optimal, because each negotiator chooses the solution from the set of acceptable outcomes in a probabilistic manner, and there is no guarantee that the best agreement will ever be included or even mentioned.

Distributive bargaining is highly competitive by its nature. Parties achieve the results through hard and tough negotiation, which is designed to reach a formal written agreement, such as obligation for information disclosure. During such tough negotiation parties can use threats, hide their real objectives, and misinterpret the motives and arguments of an opponent. Typical example could be if a client threatens not to reappoint auditor (Teoh 1992, p.4) or if auditor intimidates a client asserting that auditor would form a qualified opinion if a client makes no changes in the accounting statement (McConnell 1984, p.47). Even though distributive solution may not serve long-term interests of both parties, this type of bargaining is still broadly used in audit-client communication, because some negotiators associate a whole negotiation with zero-sum situation, underestimating the availability of integrative potential of every conflict and broad range of possible solutions especially in the field of audit and accounting.

Studies conducted by Gibbins et al. (2001) and by Gibbins, McCracken, and Salerio (2007) confirmed that audit partners would rather enter the negotiations with the client believing a limited range of solutions was available and were more likely to use distributive strategies. There are three commonly accepted distributive bargaining strategies. (Gibbins, McCracken, Salterio 2010, p.581) First, contending strategy aims “to make the other party make concessions or to resist similar efforts by others” (Pruitt, Carnevale 1993, p. 28). Client can influence a negotiation by threatening auditor to not reappoint him in the future (Teoh 1992, p.7). Auditor, in turn may threaten the client to present the qualified opinion in the audit report, which would suggest, that information provided by the client was limited and not in compliance with superior accounting principles (GAAP, IFRS or RAS) (McConnell 1984 p.48). Contending tactics will lead to zero-sum game, where either client or auditor (or neither) wins. Auditors may use their ability to qualify a financial statement of the client, argue with client’s management, and be firm in pursuing one’s position to make client concede and agree with auditor’s requests (Gibbins, McCracken, Salterio 2010, p.585).

Second, conceding strategies involve giving up on one’s own gains and satisfying opponent’s requirements. In this case, auditor would change one’s position and agree on smaller adjustments in client’s financial statement, giving client’s management possibility to “win”. (Pruitt, Carnevale 1993, p.28) In order to reach an agreement by using a conceding strategy, auditors may use following tactics: trying to satisfy the client’s expectations, interests and wishes, accommodate the preferences of client’s management giving up into the wishes of client, and making the concessions in favour of opponent, etc. (Gibbins, McCracken, Salterio

2010, p.585) If auditor has been influenced by a client and has weaker position in negotiation, conceding will help to reach an agreement quickly, achieving feasible results and workable solutions, which however would not always be efficient.

The third, compromising strategy can be viewed as a middle point between conceding and contending strategies, forcing both parties to make concessions in order to achieve mutually beneficial solution. When employing compromising strategy, auditor and client are ready to change their positions moving toward middle ground and finding mutually acceptable solution. (Gibbins, McCracken, Salterio 2010, p.581) This type of distributive bargaining has advantages for both, client's management and an auditor, if parties trade on the issues. According to Sanchez, Agoglia and Hatfield (2008, p. 1185), auditor may inform client about all possible adjustments in a statement and provide a client with a range of possible immaterial adjustments, expecting that a client would rather be disposed to accept the material adjustments.

This type of strategy provides a possibility to achieve the objectives of an auditor-client negotiation. For example, auditor reported unqualified opinion, stating that client's accounting statement gave a sound overview of client's financial activity and corresponded to IFRS. In this case, an auditor and a client would trade on the issues to disclose the information and to achieve mutually acceptable solution. It is important to note, that despite the fact, that a compromising leads parties toward workable and acceptable solution, parties may not always be satisfied with an outcome, and either one or both might have a negative opinion of the negotiation process or the results (Bame-Aldred, Kida 2007).

Tactics to be employed in order to follow a compromising strategy would include "give and take" adjustments. Auditor and client's management will try to find some middle point between their positions, by offering reciprocal concessions. (Gibbins, McCracken, Salterio 2010, p.585) Usually, achievement of compromise is relatively intensive time- and cost-consuming process which, however, offers parties more equal utility shares than conceding or contending strategies. It is hard to measure an individual utility of each negotiator due to the unwillingness of the parties to disclose information about their true objectives and trade-offs. (Kersten 2001, p. 496) It is also hard to measure negotiators' satisfaction with results and their perceived fairness of the whole negotiation process. The problems related to fairness and satisfaction are relevant for all types of distributive strategies.



Fairness is an important issue when analyzing the results, but since it relies mostly on the subjective perceptions and not on absolutely rational considerations, it cannot serve as a universal indicator for successful negotiation. Fairness does not assess an economical and socio-psychological outcome of a negotiation in quantitative sense, but rather reflects the degree to which parties perceive and judge negotiation and financial outcome as being fair, and economic and socio-psychological shares as being equal. If negotiation is perceived as being “fair”, this will encourage the future cooperation. (Albin 1993, pp. 223-224) If negotiation outcome is perceived as being unfair and results lay below expectations, negotiators will be unsatisfied not only with the material but also with immaterial side of such negotiation. Even though, conceding and contending strategies offer negotiators higher individual utility, the possibility of perceiving a bargaining process and results as unfair and unsatisfactory is much higher than when using compromising tactics. Thus, when choosing distributive strategy one should consider the fact that compromising strategy would more likely lead to a higher joint utility and better satisfaction.

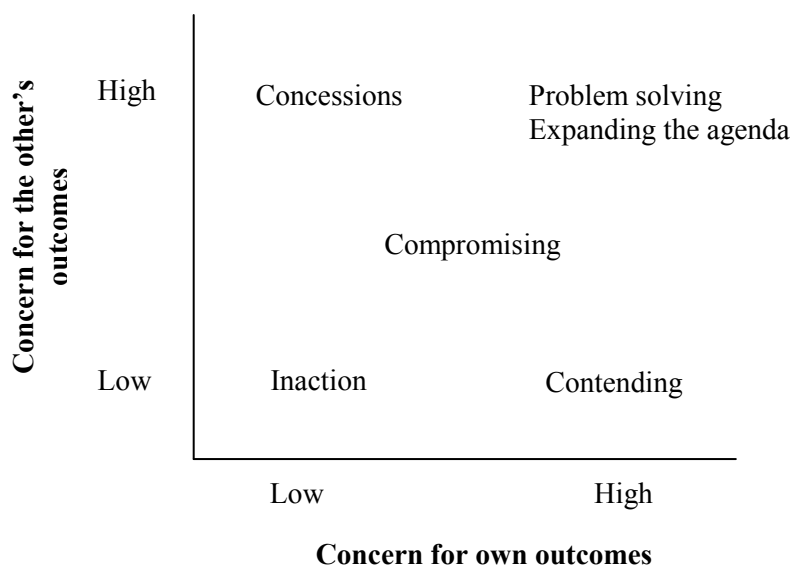
As previous studies indicate, managers prefer choosing distributive strategies. These solutions require less effort and are less time- and cost- consuming than integrative strategies. The usage of integrative strategies aims to “find a means by which the parties can make trade-offs or jointly solve problems to the mutual benefit of both parties” (Bazerman 1986, p.123). According to the results obtained by Gibbins et al. (2001), 48% of managers were initially ready to use distributive strategy, 38% of managers believed, however, that the new solution, which was not available at the initial set of possible negotiation outcomes, could have been developed. One type of integrative approach to the bargaining process could be a problem solving.

This strategy implies a deep research of the underlying motives, true goals and possible trade-offs of an opponent. The objective of the negotiation process is not to divide the existing “pie” and trade inside the range of possible solutions, but go beyond an obvious settlement and work out a new solution, which will preserve auditor’s initial goal, at the same time satisfying client’s wishes. This strategy serves to content the interests of both parties. Authors have previously discussed the auditing conflicts, which have been resolved using integrative bargaining - problem solving. Usually, a client is not interested in precise numbers in accounting, which completely reflect the true financial situation of a company. Accounting is rather used to reach other objectives, such as avoiding the losses, achieving benefits, gaining bonuses, and other hidden purposes (Gibbins et al. 2001, Burgstahler, Dichev 1997).

The complete set of client's underlying motives is usually not obvious to an auditor at the initial stage of the negotiation, so that an achievement of the "win-win" situation is rather resource intensive process. If client wishes to reach some bonus target by reporting some specific net income number, auditor could suggest different accounting treatments for the revenues and expenses, which will lead to the aimed net income number, at the same time being in compliance with IFRS or other accounting standards (Gibbins et al. 2010, p. 581). Thus, the interests of both parties will be satisfied and the probability for long-term partnership between client and auditor will increase.

The second integrative strategy aims to expand the agenda of the issues. When considering possible solutions, negotiators try to bring the new issues into the negotiation. Each negotiator will be able to observe larger set of issues and tradeoffs on issues of less importance in order to gain the desired outcome on main points. (Lax, Sebenius 1986a, Neale, Bazerman 1991) Thus, initially given range of possible issues broadens, but even if the range of possible solutions enlarges, negotiators do not necessarily concentrate on given frame only; they can go beyond obvious solutions and add new issues any time before or during the negotiation. An example for such strategy could be a case, when auditor brings into negotiation some immaterial issues, which were not initially planned or auditor tried to avoid them. Such, auditor achieves the correct net income in client's financial statement, client management in turn, achieves the required reporting for the initially disputative issues (Hartfield. Agoglia, Sanchez 2008 p.1184; Sanchez et al. 2007 p.242).

As it was previously mentioned, integrative strategies require much more efforts than distributive strategies. In auditor-client negotiation setting, parties are often forced to choose "zero-sum" games due to the time pressure and lower costs of the distributive strategies. The majority of the research on audit-client negotiation implies that auditors use distributive strategies more likely and more often than integrative ones, especially at the initial stage of negotiation (Pinkley, Griffith, Northcraft 1995; Gibbins et al. 2001). Gibbins, McCracken and Salterio (2010) confirmed, however, that in contrast to the most of the previous studies, auditors prefer employing integrative tactics when entering a negotiation, irrespective of circumstances. Several previous studies have confirmed that in accounting setting audit partner would rather prefer integrative tactics if there is a concern for both the relationship with client management and negotiation outcome (De Dreu, Weingart, Kwon 2000; Pruitt, Carnevale 1993, Savage et al. 1989). Pruitt and Carnevale (1993, p. 105) introduced a dual concern model, which was also confirmed in the study by Rhoades and Carnevale in 1999:



**Figure 1.** Dual Concern Model (Pruitt, Carnevale 1993, p. 105; Gibbins, McCracken, Salterio 2010)

Small number of researchers have studied an effect of dual concern due to the problems occurring when triggering the use of integrative strategies in both laboratory and field settings. This model includes motivational orientation and strategic choice as major variables describing the preference for choosing one negotiation strategy over another. Pruitt and Carnevale (1993) take under consideration five types of negotiation strategies, whereas current paper will not consider inaction strategy as applicable in auditor-client negotiation situation. Inaction strategy assumes, that negotiators are not interested in negotiation process and are not motivated to negotiate, avoiding an interaction with each other. If this situation happens during an initial stage of the negotiation process between audit partner and client management, the whole audit activity will be terminated and a new audit partner will be appointed to report an opinion on client's financial statement. In this case, neither auditor nor client would have much concern for one's own and for counterparty's outcome.

Contending, concession (conceding) and problem solving strategies have already been under more detailed discussion previously in the paper and overlap with strategic choice determinants proposed in the dual concern model. Further in this paper they will serve as the variables describing distributive and integrative strategic choice of Russian audit partners. Contending strategy implies more egoistic behaviour of the negotiator, stating a high level of concern for one's own profitable outcome leaving counterparty's wishes and objective unattended. Conceding strategy would appeal conversely, implying negotiator's wish to fulfil

counterpart's requirements, paying less attention to one's own outcome. Problem solving would suggest a high level of concern for both, one's own and other's outcome, and finding a solution, which would be the most beneficial and perceived as being fair by both negotiating parties, would be of highest priority.

Pruitt and Carnevale (1993) did not take under consideration two important strategies: compromising strategy and expanding the agenda (integrative strategy). Current paper will categorize these strategies under high self- and other-concern motivational orientation. One should note, that even though the nature of compromising assumes dividing the "fixed pie", parties are still more motivated to negotiate in order to achieve mutually acceptable and workable solutions, to achieve the highest possible joint utility given the fixed set of possible solutions. Thus, when choosing compromising strategy, auditor partner is not only concerned about one's own outcome but also makes reasonable concessions in order to reach some middle ground and maintain a good relationship with a client management.

Compromising strategy would in this case constitute half-to-half split of the utility shares, suggesting that negotiator would equally estimate the importance of one's own and other's outcome, and an achievement of equal utility shares would be of highest concern. One should note that, the concern for the both, one's own and other's outcome is smaller than when implementing expanding the agenda or problem solving strategy. Expanding the agenda is similar to problem solving when arguing about concerns of the parties and it would suggest a high concern for one's own and other's outcome, so that bringing the new issues into the agenda, which would increase both parties' utilities, would be of highest concern.

Motivational orientation is represented by low and high self-concern, and low and high other-concern (Pruitt, Carnevale 1993). Concern for other's (client management) outcomes is a value that one party is providing to other, one cares about payoff to the other side and is facilitating future relationship maintenance and strengthening. High other-concern can serve as auditor's motivation to maintain the good relations with client management and possibly be appointed as auditor for the future audit and consulting activities. For example, auditor would more likely use problem solving strategy, given the audit partner's concern for negotiation outcome and relationship with client's management. According to the dual concern model, auditor will more likely use integrative strategies and compromising if both, negotiation outcome and the relationship with client management, are of significant importance for the partner.

## **6. Negotiation in Russian Business and Accounting Setting**

### **6.1 Specifics of Russian Business Environment and Negotiation**

When studying characteristics of Western and Eastern audit and accounting negotiation, literature concentrates mostly on the problems related to the taxation, legislation, state-level regulations, currency fluctuations, corruption, cultural and other differences. When analysing Russian conflict management in accounting setting, author faced an important difference which has been rather neglected in the previous articles. The literature on audit negotiation in Western countries considers overstatement of the net income in financial reporting of a client as one of the basic conditions for initiation of negotiation. Most of the empirical research and theoretical analysis assumes that in addition to many other issues to be discussed during the audit negotiation, the most important problem concerns an overstated income (Perreault, Kida 2011; Gibbins, McCracken, Salterio 2010; Bame-Aldred, Kida 2007; Tan, Trotman 2010; Gibbins, Salterio, Webb 2001).

Russian auditors have to confront an opposite situation. As it came up during the pre-research expert interview, Russian companies tend to understate their net income in the financial reporting. Western companies overstate their income to attract investors, gain better ranking and earn extra bonuses. Russian companies have to face the realms of Russian federal laws and extensive state regulations. Taxation system in Russia is more complex and federal laws are not supporting the enterprises to such a broad extent as in Western countries. Companies have to pay large income taxes and some managers are convinced that a high percentage of the net income that is paid for taxes is unfair, irrational, and unreasonable. The higher the income of the company is, the more taxes are to be paid. Presentation of the real net income in the financial statement is therefore rather undesired, especially if the annual income was higher than planned.

Paradoxically, higher income of the company associates with higher taxes, problems, and other complications. So the company managers often prefer not to report the real income officially in order to save money for taxes and bureaucracy. An income after taxes depends mostly on the opinion of an auditor. If company management wishes to hide part of the income from the legal authorities and save money on taxes, managers would make large efforts to receive an audit opinion with accordance to their expectations. An internal accounting and audit are not enough to regulate and display the real financial situation of the

company. Bigger players and international companies have often relatively independent and strict internal audit, so that external auditors just have to double-check an opinion of the internal auditor and verify the correctness of the company's financial reporting.

In Russia, differentiation between external and internal audit plays an important role in understanding the specifics of accounting system. The realm of the Russian audit practice is that company's management often tends to distort the accounting reporting and sometimes fails to present the full and fair financial information about their enterprises to the users of the statement. The role of an external auditor should not be underestimated in situations, where the confirmation of reliability and validity of the financial statement is needed. The external control system provides audit opinions and adds credibility to the financial statements. (Sucher, Bychkova 2001, p. 819) The credibility of the financial statement can also be achieved by an internal audit, in Russia however, there is yet no extensive market know-how due to the short experience, besides there are still no generally applicable standards for internal audit.

Independence of an external auditor plays a crucial role in presenting the objective judgement. Russian business environment is to the large extent regulated by the personal contacts. As it was mentioned by the expert during the pre-research interview, Russian companies make huge efforts to establish personal relationships with the external auditors and make their communication more informal. Company management is often convinced that if it achieves friendly and informal personal contact with an external auditor, the company will get better judgement on its financial reporting and auditor will issue unqualified opinion despite any disclosures and discrepancies in client's accounting. Client management is often ready to make some personal and professional favours to the auditor, such as making expensive presents or recommending the auditor to other companies, thus promoting auditor and finding new leads.

External auditor has to stay independent and work out unbiased opinion on client's financial statement. In such context independence can be defined as an ability of auditor to derive one's own objective and credible opinion on client's accounting report without being excessively influenced or controlled by others. However, the credibility of auditor's opinion and objectivity of its judgment is quite subjective issue and cannot be explicitly measured. One can make only assumptions and believe that auditor's opinion is free of biases, independent, and financial statement of the company is credible. (Sucher, Bychkova 2001, p.819)

Auditor's independence can be seen as consisting of auditor independence and profession independence. Profession independence implies that auditors are seen as credible and trustful professionals who show considerable experience and qualification in the accounting field. When talking about auditor independence, it means that auditors are independent themselves, they are free to develop their own control activity and are able to get relevant information from any legitimate source. Independent auditors are not influenced by anyone in their judgements and assessments and can freely express their opinion on the financial statement of a client company. Individual auditors are independent if they are not affected by the client company management or any third party to whom the financial statement might be of concern. (Sucher, Bychkova 2001, p.821)

Every country has its own requirements, laws and codes to achieve auditors' independence. International Federation of Accountants (IFAC 2014) presented the checklist of the requirements and regulations on auditor independence. Such regulations include laws regarding appointment, resignation, alternative audit opinions, as well as legal liability requirements and codes on individual economic dependence (ownership of shares, employment). Regulations to secure the auditor independence include culture of audit firm, quality control procedures and other factors. Besides, it is important to take into account overall state of audit market, size of an audit firm, professional, societal and economic context.

Accounts Chamber of the Russian Federation has made a lot of efforts to fulfil these and other requirement in order to achieve and strengthen auditor independence. During the last years large set of regulations and requirements has been implemented in order to achieve fair and independent audit activity. Number of laws concerning enforcement of audit standards and codes of ethics has been introduced to the auditors by Russian Audit Chamber. It has introduced a clear focus for auditors in standard setting, control and quality of the assessments as well as regulations to enhance competition on the market for audit services. (Accounts Chamber of the Russian Federation 2014)

Besides regulations set by the Russian Accounts Chamber, large amount of state-level laws and standards on audit and accounting activity was applied. As is cleared up from the expert interview with managing auditor of one Russian audit company, Russia had no immediate history of a market history and independent external audit, but due to the strict regulations initiated by the government and Accounts Chamber of the Russian Federation, audit activity

in Russia is becoming more independent and credible. Besides, strong presence of international audit companies and international client companies conducting transparent accounting increases quality and credibility of Russian audit activity. Despite existing problems of corruption and grey market, Russian audit is becoming more independent and shifting toward Western practices.

Despite the shift toward Western standards and increasing experience, audit in Russia is still perceived as undesired annual meeting which aims to reveal the information, which company would prefer to hide or disclose partially. There is still no extensive demand for provision of financial statements for company's investors, partners or users other than tax inspectorate. Tax authorities are still the main audience for company's financial statements and are perceived as a problem and main concern for many managers and their auditing partners. Auditors' opinion influences strongly an amount of taxes the company will be obliged to burden itself with. Auditor's opinion on the financial statement is serving as an advocate before the tax inspectorate. (Sucher, Bychkova 2001, p.835)

In contrast, in Western countries auditors are rather seen as providers of the independent audit opinion who additionally can provide company's management with advices on optimization of company's processes and enhance efficiency of the activities. So called Big Four, embedding Ernst &Young, KPMG, Deloitte and PricewaterhouseCoopers, represents the desired shift toward Western accounting practices along with Western business culture. These players are serving as a proxy for auditor independence in Russia. Implementation of the perfect accounting system and audit activity along with an objective judgement and complete auditor independence is usually achievable only by the Big Four players but remains relatively unfeasible for smaller Russian audit companies.

When studying negotiation in Russia one should keep in mind that Western practices and business traditions are extremely influenced by the powerful set of local informal practices that have emerged in the Soviet period and have been enforced in the 1990-ties, in the period of chaos and overall disorder. A difficulty of conducting economic activity in Russian business environment is hidden not in federal laws, but in "their selective application" (John Browne, ex-CEO of BP). Sometimes regulations are only partially fulfilled and behavioural codes disregarded. That makes an impression of total disorder and lawlessness. Of course, such an attitude gives a lot of possibilities for corruption and unfair business management. Independently on the size of a company and its field of action, many of them suffer losses due



to the corrupt customs. Financial losses evolve from external influencers, such as corrupt officials, but also from an internal corruption initiated by company's own managers and employees, who are engaged in the informal practices, such as appropriating company assets for personal use. (Ledeneva, Shekshnia 2011, p.5-6)

Corruption can be described as a complex set of factors including betrayal of trust, deception and purposeful subordination of common interests to one's own specific interest, secrecy, complicity, mutual obligation, and disguise of the corrupt act. When talking about corruption in more narrow sense, one can distinguish between corruption in public and private sector; in Russia such differentiation can however not be applied in common way. Actors involved in business activity are not only the employees of the private companies, managers, owners, executives, but also the government officials of different levels, law enforcement officers, and government agencies - all of them are exposed to corruption. (Ledeneva, Shekshnia 2011, p.7)

Internal corruption is seen as being less harmful for the businesses in Russia than external corruption, because external corruption is represented by the state-level authorities, and smaller companies are helpless to stand against the inefficient and unfair governance of the state-institutions.

Due to the exceptionality of Russian history and communist concept of the "public property" which implied that all private property such as land, capital, and other significant assets were a collective good belonging to everyone, the differentiation between public and private domain was vague. Considering the fact that the concept of "public property" dominated Soviet society for more than half a century, society has adopted it as part of the social capital and transferred it to the post-Soviet space as one of the traditions. During the Soviet time, it was common to use such practices, as misuse of valuable assets, which belonged to the company, or solving personal problems during the working time. All levels of society used the common property rights for one's own advantage. In the post-Soviet period, weak property rights and privatization forced the property owners to use a support of the state and informal channels to maintain and to increase their wealth. In Russian business it is still common to use corporate resources or authority for personal gain. (Ledeneva, Shekshnia 2011, p.8)

One should differentiate between corruption and informal practices. Even though they both represent deviations from the legal regulations and norms, they cannot be perceived as equally harmful for the society. Informal practices of conducting business in Russia can be seen as

both, as trust-based relationships and as betrayal of trust by the actors who disregard the formal rules. Individuals' expectations set a frame for trustful or mistrustful negotiation. If both parties expect to achieve mutually acceptable negotiation outcome by using informal practices and trust each other, corruption and informal rules can in this case be rather seen as the means to achieve goals in a situation where formal rules and structures work imperfectly. As it can be concluded, sometimes informal procedures should not be seen as corruption indicators, but as indicators pointing to the ineffectiveness of the formal practices and serve as a proxy showing the local know-how. In certain situations, anti-corruption campaigns should be anticipated with suspicion, while informal practices should be treated as being justice-driven and having equalizing effect on society. (Ledeneva, Shekshnia 2011, p.9)

Informal practices form everyday life helping private sector agents to resist to ineffective governance of the state institutions and broad political corruption, and to fight the unfairness of regulations. High income taxes along with extra costs due to corruption are equalized by informal practices. When talking about accounting negotiation, one extreme example could be, when client management has to make adjustments to the financial statement due to the understated net income. As income increasing adjustment will lead to higher taxes and penalties, company management might make an arrangement with auditor not to disclose all information and make smaller adjustment than planned. In this case, client management will save costs on external corruption and auditor will receive some extra bonuses from client's company. In this case, one can see the gap between formal rules and "things done in practice". (Ledeneva, Shekshnia 2011, p.9) Of course one cannot disregard the legality as formal system of justice. It is still possible to remain in the legal frames while using the informal practices to overcome the upper level corruption.

It is important to note the special term "blat" used to describe a common practice of informal activity used in Russia. It is a practice of offering favours to the people in the immediate communication circle, for example friends, relatives, or acquaintances. When speaking of "blat", all types of favours can be provided and they are normally paid directly without official invoices, but usually they do not comprise money but conducted as barter. For example, one company got a favour from its business partner, in return, company's management can offer the business partner some service or favour in turn. Payment or return service does not have to be immediate and can be offered at any time in the future and be presented in any form. "Blat" does not require any direct offer and usually excludes money. (Ledeneva 1998, p.40)

Term “Blat” is not about business contract or conflict of interests, it is rather a form of cooperation and mutual support driven by the mutual interests, trust and serves as the indicator for long-term relationship. This form of informal business activity is normally used by individual people. “Blat” favours can also be made between companies, but nevertheless on the individual terms. For example, the company owner asks his friends for a favour, who by the chance owns another company; in this case “blat” will be made in favour and to support economically the company but on the individual terms; so the owner, and not the partner company, will be the one to offer his friend something in return. The usage of “blat” favours is usually motivated by urgent need or extra-ordinal situation and usually does not exceed modest volume of consumption. Besides, they are done not for immediate profit, so that the self-image of the person offering the favour will rather be altruistic. (Ledeneva 1998, p.40)

A large part of the business and negotiation conducted in Russia is done informally due to the necessity. It is a quite common opinion that it is impossible to live “officially”. Due to the fact that the official salary in Russia is much lower than in Western countries, people are forced to find alternative earning possibilities and to have “unofficial jobs”. Individual auditor in Russia sometimes has to face dilemma, when the need to earn some income outweighs the ethical and professional considerations and forces auditor to give up to the client’s pressures and to report unqualified opinion on the incomplete financial statement despite uncertain legal and economic background. (Sucher, Bychkova 2001, p. 836) Strong and successful audit and consulting companies can be more independent due to the stronger market position and bigger resources which allow them to contradict the social and legal corruption, injustice and unfairness. Smaller businesses cannot sometimes resist the system and are forced to follow the rules dictated by the corrupt authorities.

Independence of the auditors in Russia is to the large extent connected to the size of the company, available resources, social network and personal contacts of the individual auditor but also of the whole company. Auditors in Russia are strongly influenced by the legal and taxation authorities who have a lot of power to set the frames for accounting and reporting. Audit activity depends not only on the size of the audit company, but also on the size and importance of the client company. As it was mentioned by one of the respondents during the interview, smaller audit companies are sometimes forced to accept client’s position in order to remain in the long-term business relationship and maintain the client. The number of such companies is, however, quickly decreasing due to the lacking credibility of their professional

opinions. The amount and frequency of such practices has declined strongly during the last years.

Strict anti-corruption laws and changes in the business ethics of the Russian companies lead to a decreasing number of corrupt auditors and tax authorities, and to the increasing independence and credibility of the auditors. Nevertheless, large portion of economic transactions is still made via barter, which by default implies higher level of corruption. Problems connected to the auditor independence arise to the large extent due to the short history of Russian audit and development of market economy. Russian audit is relatively new profession, which had to overcome the chaos dominated the Russian society and economy after the fall of the Soviet Union, regulations of the post-Soviet market, and had to develop its own unique audit system appropriate for the sensitive market situation and economic uncertainty.

During the last years, the number of foreign investors was strongly growing. Not only international but also national investors seek the new businesses and opportunities to develop further, and therefore require credible and properly audited financial statements. The function of an auditor is incrementally transforming - from client company's mediator and advocate against the tax authorities, auditors are changing to the qualified providers of an independent opinion to attract external investments. The demand for external independent auditor is strongly growing along with the number of investments, which require credible financial statements. Extensive legal and professional framework set up by Accounts Chamber of the Russian Federation aims to secure auditor independence and helps Russian national audit companies to compete with strong international players in face of Big Four. (Sucher, Bychkova 2001, p. 836) Nevertheless, implementation of an extensive set of regulations is strongly limited by uncertain societal conditions, attitudes and traditions of the Russian business environment.

## **6.2. Differences Between Western and Eastern Audit Negotiation**

Most of the previous studies were conducted among Western auditors, and methodologies are adapted to the Western European and US organizational cultures. When studying a conflict management in audit companies functioning in other countries, one should take into consideration the cultural exceptionality of audit companies transacting in Russia. When describing business environment, Russian national and organizational culture scores relatively low on individualism, according to Hofstede (1980). Relationships are very important for individuals and are crucial in obtaining information. Society members are very interdependent and in order to achieve successful negotiation outcome one should first of all establish personal, trustful and authentic relationship with an opponent. Members of low individualistic societies score high on loyalty toward each other and prefer tight relationships in their social network. (Hofstede 1980)

Accounting negotiation in Russia differs markedly from the one in USA or Western European countries. A number of social factors has to be taken into account including linguistic differences, cultural sensitivities, and historical background. Differences in taxation, legal system and audit standards, governmental restrictions, and bureaucratic regulations are essential when studying accounting negotiation. It is important to note that Russian governmental interference plays very important role in framing and conducting accounting activities of the companies. When comparing Western and Eastern audit practices one will note the uncertainties arising from political, economical and ideological differences.

There are international audit companies functioning successfully in Russian business environment, so called Big Four is represented by Ernst &Young, KPMG, Deloitte and PricewaterhouseCoopers. As it enquired from the pre-research interview with directing manager of one Russian audit company, often Big Four companies buy Russian national audit companies and provide them with accreditation and know-how. Such practice leads to the situation when smaller national companies belonging to the bigger partner, adopt international practices, experience and standards. This implies, that despite serious cultural, social and legal differences between Western and Eastern business environments, accounting sector is continuously changing and becoming more international and homogenous.

When international audit companies enter the Russian accounting sector they would have to face some certain linguistic barriers. Even though, English is one of the main international

business languages, Russian companies prefer operating and communicating in Russian. Due to the deep cultural differences, international players operating in Russia should focus not only on the correct direct translation of the negotiation issues, but also on the interpretation of the problems in agenda. Considering the high context of Russian culture, negotiators who are not giving enough attention to the national and business traditions will discover that Russian negotiation includes communication not only on professional but also on personal issues. One would notice that general and accounting negotiation in Russia is much more severe than in Western European countries due to many interrelated factors, including even such details as intonation and manner used to present the arguments and possible solutions verbally and written.

More than 180 ethnic groups are living in Russian Federation, which implies highly dynamic quality of modern Russian society. Old pattern of hierarchical model of power is being replaced by the new behavioural trends developing in the country, which in turn bear the imprint of unique Russian cultural heritage and dimensions. Russian exceptional history and long isolation impose country on the very unusual position among other dominant countries. Behavioural changes in business and social sphere have been made after the fall of the Soviet Union. Major shifts have been made in the culture itself, in values and attitudes. Internationalization of national companies, international companies entering the Russian market, universities cooperating with foreign partners, and tightening of interpersonal relations with Western countries facilitate the changes in behavioural patterns, in business organizations and personal contacts. Private and public sector are making large efforts to achieve more market-oriented economy and open society, and converge toward Western business behaviour and social patterns. (Naumov, Puffer 2000, p. 717)

In order to understand the differences between negotiation among Western and Eastern auditors, one should take into account the specifics of such negotiation, as well as legal and regulative influence on personal decision-making. The notion of connecting the Russian Audit Standards with International Financial Reporting Standards has already been under the discussion earlier in this paper; nevertheless, only methodological and technical implementation of the regulations was mentioned. The process of shaping and connecting international audit standards with Russian national regulations encompasses state-level adjustments and development of technical resources, political decisions, and legitimisation. To the certain extent, the unification of IFRS and RAS depends on the powerful alliances in the private sector and their users (Mennicken 2008, p. 538).

Besides difficulties arising from different taxation and legislation systems, homogenisation of RAS and IFRS is much more complex process when taking into consideration cultural preferences, attitudes and beliefs of Russian auditors. This process goes far beyond setting the same standards in the different countries; it implies connecting local and global, formal and informal, Eastern and Western experiences and desires, achieving harmonization of ideas and techniques of audit standards. Managers, auditors and regulators have to be ready to accept Western practices and to become comfortable with foreign identity. (Mennicken 2008, p.386)

Due to the fact that RAS and IFRS are shifting toward each other, unification not only of the standards but also of professional and cultural attitudes is becoming more evident in Russian accounting field. This shift increases quality, uniformity and international comparability of accounting principles and audit practices. The accounting activity is modernising, changing the attitudes and expectations of auditors and client companies. Audit negotiation is therefore strongly influenced by the universally applicable and civilized measures. The idea of unification of the standards and westernizing Russian national companies is however only theoretically perfectly applicable. It is evident that the four biggest audit companies in Russia are the strong international players who have large influence on the accounting and auditing environment in the whole country, nevertheless, they cannot completely change the cultural and national practices and expose Russian audit to the Western standards. Large number of national companies is still reporting their financial activity in the informal way and conducting negotiation in purely traditional manner. (Mennicken 2008, p. 409)

For many Russian audit companies, the Big Four serves as a model for conducting an audit activity and negotiation with clients. Western view on conducting business and communicating in the accounting environment is becoming more attractive for the Russian auditors. High qualification and professionalism of the Russian auditors allows them to be flexible and adjust to the Western ways of conducting independent and credible accounting policy. Besides, they are ready to change their mentality and adopt Western accounting traditions on the personal level. While Western business environment has long-standing history of independent and free economy, Russian economy is still at its development stage. The underlying values of the agents acting on the market are still strongly influenced and connected to the state-run economy. Many Russian companies still partially maintain the characteristics and values dominated the societal order at the time of centrally-controlled economy. (Barnes, Crook, Koybaeva, Stafford 1997, p.541)

There is a large number of criteria and characteristics at all levels of the social, economical, political, and legal structure, according to which Western and Eastern business communication, attitude and beliefs can be compared. Current paper does not speculate, which criteria best describes the differentiation between these cultures, and assumes that every set of social values, attitudes and beliefs could be studied according to the specific situation and field of research. Barnes, Crook, Koybaeva and Stafford (1997) have presented six general social aspects, which demonstrate the distinction of the Russian business culture from the Western and which could be of the biggest concern for international companies due to their particularity. In order to describe the differences in the business cultures following criteria were chosen: 1) internal political hierarchy orientation; 2) national pride; 3) Blat; 4) value of mutual protection; 5) price fixing; and 6) disregard of laws and regulations perceived as “Senseless”.

Whereas Western companies are more customer-oriented, Russian companies are still to the large extent focused on pleasing authority figures. Even though there is a clear shift toward free economy, independent investments and global market, Russian business activity along with the audit processes aims to satisfy the orders of economic - political structures and to resist the rules and regulations which seem to be unfair and corrupt. According to one of the respondents of the Barnes, Crook, Koybaeva, Stafford (1997) study, “Russians want to know who is in charge”. Russian cultural dimension of the power distance indicates the high hierarchic dependence and preference to act within the clear power distribution structures.

Russians would traditionally prefer to have higher hierarchy inside the company, but also outside when it concerns governmental and other influential authorities. In Russian business environment, it is still common to believe that finding and pleasing the most important decision-maker disregarding anyone else will help the company management to achieve its goals. It is usual to show the respect against the “boss” and controversially the “boss” will openly show his power and will be treated according to his rank in the hierarchy. (Barnes, Crook, Koybaeva, Stafford 1997, p.541) Demonstration of one’s social status is highly important in Russian business setting, because it indicates the respect the other individuals should have for this person. General example could be, when the company’s owner drives very expensive car to the meeting with potential investors, because it would show the solidity of company’s manager and seriousness of one’s expectations.



The problem of the internal political hierarchy orientation is of high concern for the auditors due to the belief, that obtaining information and withholding it, provides individuals with advantage. In Western practice it is assumed that sharing information increases joint utility and enhances one's own reputation and status. When negotiating in Russia, individuals may try to suppress and hide available information in order to achieve higher hierarchic position by possessing and utilizing information which others could not have obtained. When setting Russian and Western cultures against each other, one should keep in mind the historical aspect of each culture. During the Soviet period, informational openness and free opinion statement led individuals to the social defeat. Such attitude changed the social behaviour and nowadays, when negotiating in the Russia, one can never be sure, whether the opponent is expressing one's own opinion or whether one's statements are biased by social desirability. Lack of openness can also be explained by the willingness of the managers to avoid the conflicts with superiors and the need to take confirmation for every action from the authorities. (Barnes, Crook, Koybaeva, Stafford 1997, p.542)

Lack of openness complicates an accounting negotiation and leads to the problems with an information disclosure. Russian enterprises are more likely to manipulate the data in accounting and reporting such as understating material and labour reserves, exaggerating the quality and quantity of goods produced, and covering up mistakes and operating deficiencies. Such deviations from the accounting standards would lead to the discrepancies in the financial statement, but would satisfy corresponding objectives of the superiors. For some company's internal accountants it is more important to please the supervisors than to display the real situation. In Western accounting policy, the objective would be to state company's real financial position, strive for better profit and compete against other companies and not against governmental authorities. Russian business culture will require more careful considerations, higher need for safety and caution than in Western countries. When negotiation involves more than two individuals, it will take more time to achieve solution due to the longer discussions within the company and thus longer decision-making process. (Barnes, Crook, Koybaeva, Stafford 1997, p.543)

The second characteristic, which can describe the difference between Western and Russian negotiating and to some extent clarify the particularity Russian culture, is the national pride. Russians are very proud of their cultural heritage and an important role the Russian scientific achievements played in the world history. Western companies are typically convinced that their way of doing business is the best possible, and when entering Russian market, Western

managers tend to stay insensitive against local unwritten rules and habits of doing business. Western corporate culture concentrates first of all on the achievement of the material organizational goals and financial gains, whereas a social aspect is of less importance. Russians may indicate such way of doing business rather exploitative and inhumane. That is why at the initial stage of negotiation parties usually stay more preserving and aggressive using more personal arguments to set the goals and motives for negotiation. (Barnes, Crook, Koybaeva, Stafford 1997, p.543)

As it was confirmed by the expert during the pre-research phase of the current study, international players often have to face a problem of being aggressively treated by the Russian client companies. Sometimes Big Four companies have to overtake the small national audit firms for two reasons: to expand, and to win the new clients who are not willing to cooperate with Western auditors and foreign companies. Russian national pride can thus be a barrier to business activity not only in the accounting and audit setting but also in the broader sense. That is why joint ventures and partner alliances are the best way for entering the Russian market and maintaining market position.

Third element discussed by Barnes, Crook, Koybaeva and Stafford is “blat”. As it was already mentioned earlier in the current paper, it is an important type of informal business activity employed by individuals and by companies and cannot be disregarded when studying specifics of negotiation. “Blat” displays the preferences of the individuals to conduct business activities based on the personal connections and regulated by the mutual favours and trust. In contrast to the Western business practises, which are usually based on the equal opportunities, fairness and transparency of the transactions, Russian managers would prefer conducting some business activities based on “blat” favours. Barter is still very common in Russia and can be seen as one part of a negotiation if trading on favours leads to the mutually beneficial results. (Barnes, Crook, Koybaeva, Stafford 1997, p.544)

Another concept closely related to the “blat” and highly valued is a perceived need for mutual protection. This shows once again the gap between Russian and Western business policies. A high value of mutual protection displays an importance of the mutual trust built on personal relations in business context. In Russian business setting, an emphasis is put on the mutual safeguarding and trusting, whereas Westerns tend to concentrate on the mechanisms fighting the corruption and achieving the idea of justice and fairness in Western understanding. Some respondents of the Barnes, Crook, Koybaeva and Tafford (1997) study noted, that the

“corruption is everywhere” and a “fact of life” in Russia. (Barnes, Crook, Koybaeva, Stafford 1997, p.544) The same conclusion was made by some respondents during the expert interviews conducted for the current paper. In Russia, mutual protection may have negative consequences, because individuals fail to expose corruption or potential problems inside the company due to the unwillingness to break personal trustful relations.

The concept of price fixing is the fifth characteristic describing Russian business environment. It is a large problem for the auditors to obtain the reliable financial information about the net cost of operation in Russian businesses. This problem concerns not only international foreign audit companies but audit activity in general. Again, such difficulties arise from the historical background. In the Soviet society, the concept of free market pricing did not exist; the prices for all goods of the first necessity were set by the state and the costs for all other goods were allocated on the principles other than in Western economies. Sometimes Russian relatively young free market and free pricing is perceived by managers as possibility to set unreasonably high prices in order to gain extra profit. Auditors have to put a lot of attention when controlling accounting activity which concerns the production real costs and price setting. (Barnes, Crook, Koybaeva, Stafford 1997, p.544)

The last characteristic presented by Barnes et al. to describe the Russian business environment assumes that Russian managers have predisposition to ignore regulations and laws that seem to be senseless. Whereas Western society is totally convinced in the superiority of the regulations and the structure of the governing authorities, Russians are sometimes sceptical in assessment of the benefits of some laws. A lot of regulations are perceived as being unfair and unjust, mostly because of the risks of corruption in the legal structures. Despite an extensive anti-corruption policy, which is constantly decreasing the number of corrupt legal and taxation authorities, the process of gaining back the trust of Russian managers is going to take a lot of time. (Barnes, Crook, Koybaeva, Stafford 1997, p.545)

Managers are aware of the risks emerging from a short experience in the free market and particularities of the Russian business traditions, so they stay extremely careful in their decisions and activities which are influenced by and depend on the legal authorities and laws. Sometimes, Russians do not consider it as immoral to ignore and manipulate the law if it is considered to be unreasonable. Some of them still believe that it is necessary to disregard the law in order to achieve better profits or to vitalize business activity. Some managers believe

that laws and regulations are limiting the free market and aim to suppress every independent business activity. (Barnes, Crook, Koybaeva, Stafford 1997, p.545)

This characteristic is important when studying accounting activity and negotiation. During the last years a lot of regulations and standards for the accounting activity were applied by the Russian Accounts Chamber and state-level regulative bodies. Companies are obliged to follow the federal standards in their financial statements and to report their accounting in accordance to the federal laws and audit standards. If company's management perceives some laws as being senseless, auditor would have to convince the client in the necessity of following the rules and reasoning standing behind each regulation in order to obtain required company-related data, and consequently eliminate deviations from the legislative standards.

Taking into consideration the uniqueness of Russian business environment, traditions and habits of the managers, one can make rough assumptions about an extent and profoundness of the differences between Russian and Western managers and accounting negotiation. One notices, that the differences can be found not solely in the standards and practices used for accounting and audit activity but also in the attitudes and beliefs of the managers and auditors. Actions and communication of the managers is heavily influenced by their perception and judgement of the current situation. If Russian auditor and client manager have initially different or even mutually excluding objectives, one can assume that they will negotiate and act in a different way than their Western colleagues. Further it will be discussed to which extent negotiation in Russian audit companies differentiates from accounting negotiation in Western countries based on the research conducted among Russian audit specialists.

## **7. Research Method**

### **7.1 Hypotheses Development**

Previous discussion described a set of negotiation strategies the auditors may choose initially. Depending on the available information, external factors and attitude of the opponents, auditors will choose a strategy which will help them to achieve the goals. Whereas most of the accounting negotiation literature was written on a basis of the data received from the Western auditors, the choice of an initial strategy among Russian auditors remains rather under-researched and should be more closely studied. The nature of auditor-client management relationship in Russian accounting setting might be complicated by a threat of corruption and perceived injustice. Western auditors have more stable external business environment and standards proved over time. Russian auditors are forced to operate under vulnerable and unstable market conditions due to the short history and inexperience of an independent Russian accounting system. In contrast, their Western colleagues have precise plans of action, audit programmes, back up plans and stable market situation along with a legitimate bureaucratic system and fair competition.

Final audited financial statement involves a negotiation process between auditor and client management, which has been previously only briefly studied (Goodwin 2002, Gibbins et al. 2010). The study conducted by Gibbins, McCracken and Salterio (2010) focused on two integrative and three distributive strategies, accordingly expanding agenda, problem solving, contending, conceding and compromising. Authors measured the likelihood of using one of these strategies by auditors at the initial stage of negotiation. They obtained the results from the North American (Canadian) highly experienced audit partners. Their results contradict the findings of a general negotiation literature, which indicated preference of negotiators to use distributive strategies. The study of Gibbins, McCracken and Salterio showed, that in accounting negotiation, auditors tend to employ integrative strategies when entering negotiation, irrespective of circumstances.

From the pre-research interview conducted with directing auditor in Russian company, it can be assumed that auditors would rather be persistent and would try to convince a client to accept the requests and implement appropriate adjustments to the financial statement. If client's financial statement does not mirror the real financial situation of a company and is not in alliance with the requirements dictated by the RAS or IFRS, auditor would follow precise

instructions and regulations stated in the federal law. The standards for audit control should always be followed if any conflict situation in the field of audit and controlling arises. Such practice was also confirmed by all respondents who participated in the current study.

As it was previously discussed, Russians tend to be aggressive during negotiation especially at the initial stage due to the mistrust and fear to lose control of the situation. Since current paper aims to study an intended strategic choice at the initial stage of negotiation, it can be implied that auditor will not try to work out an integrative solution or expand the agenda, but try to take an advantage on the client management and achieve one's own goals by quick distributive solution. Considering volatile situation on the Russian market and differences in business traditions, attitudes and beliefs, it can be hypothesized as following:

H1: In Russian audit companies, auditor's initial negotiation strategy will more likely be distributive than integrative.

H0: In Russian audit companies, auditor's initial negotiation strategy will more likely be integrative than distributive.

## **7.2 Methodology**

To test the hypotheses, an experimental methodological design worked out by Gibbins, McCracken and Salterio (2010) was employed. In their study, the case of actual negotiation was taken as a basis for the research. In addition to the intended strategies, authors examined two further effects: commitment to a goal of reducing net income and nature of auditor-client management relationship. Current paper leaves out of the discussion these two variables and concentrates on the choice of an initial strategy. Nature of auditor-client management relationship relates to the large extent to a personal interaction, respect, expectations, beliefs and other cultural and social factors. Before implementing this variable in the Russian business setting, separate analysis confirming validity and reliability of this instrument has to be conducted. The same difficulties arise when analysing goal commitment variable. Since goal commitment is highly related to a flexibility of the positions and Russian accounting setting is assumed to be rather inflexible, separate analysis should be conducted in future studies.

The study by Gibbins, McCracken and Salterio included three major rounds of pre-testing involving twelve audit partners, fifty audit seniors and several hundred auditing students, none of who participated in the final study. Initially, six auditors participated in the verbal discussion of the Gibbins, McCracken and Salterio study, where they were asked to discuss verbally the case presented them by the researchers and answered the questions on it. Such method allowed researchers to verify the representativeness of the situation and to clarify whether facts, instructions, manipulations and questions in the case were interpreted as authors meant them to be. Variables were checked for measurement validity and reliability.

The case required auditors to assume the role of an audit partner receiving a report from the auditing team about disagreements that exist between audit team and client company JEL regarding the discrepancies in the financial statement of the client. The key contextual characteristics of an accounting situation and upcoming negotiation included following points: “the audit company is described as a conservative financial reporter that is involved in merger discussions; the company is an average size public company for the office but is minor client for the firm overall; partner compensation is firm-wide rather than based on individual partners’ client portfolios; and the board, audit committee and concurring partner are considered to be effective”. (Gibbins, McCracken and Salterio 2010 p. 585)

The accounting issue was: “The unaudited financial statements prepared by JEL’s accounting staff show a net income of \$11,200,000, a \$900,000 improvement (an 8.75 percent increase) over the previous year. The audit team estimates that the net income is overstated by approximately \$1,800,000 (i.e. it should be \$9,400,000). Of that \$1.8 million, \$850,000 are clear-cut errors made by client staff that must be adjusted in order for the financial statements to be in accordance with GAAP. The remaining \$950,000 is made up of estimate differences between the audit team and the client accounting staff about the amount of allowance for doubtful accounts, inventory write-downs, and capitalization of interest costs. Each of these amounts is subject to professional judgement but represent the best estimate that the audit team could make given the information available to them. The concurring partner is Lynn Hayes, a respected senior partner in your firm with experience in the industry.” (ibid.)

The participants were asked to assume the role of an auditor in charge for an auditing programme for this client and prepare for the upcoming meeting with client management taking into consideration available information. Participants were asked to resolve the issue by rating how likely they would use each tactic related to the five negotiation strategies.

Afterwards couple of demographic questions were asked. The experiment of the Gibbins, McCracken and Salterio included multiple choice questions, where respondents had to indicate the likelihood according to the eight-point scale where 1 indicated “very unlikely” and 8 “very likely”. Besides indicating the likelihood of using tactics, respondents were asked to answer the questions regarding the manipulations of flexibility in client management’s initial accounting position and manipulation of auditor-client management relationship. Current paper leaves out of the research the constructs related to the manipulations.

Respondents were asked to answer a questionnaire stating the possibility of implementing possible tactics in accordance with chosen strategy. Whereas respondents could not see which tactics corresponds to which strategy and stated the likelihood of implementing particular tactics intuitively. To describe each strategy Gibbins, McCracken and Salterio (2010) used twenty five statements in their paper, accordingly five tactics pro each strategy. Since current study was qualitative, long in-depth interviews provided a required insight into the intended behaviour and strategy selection under given circumstances. That is why one tactical statement pro each strategy was left out of the study in order to make it more convenient and quick for the respondents to fill in the questionnaire. In total twenty tactical statements were presented to the respondents of a current study.

**Figure 2.** Response intended use questions

Response intended use questions (based on Gibbins, McCracken, Salterio 2010)	Contend	Compro- mise	Concede	Expand Agenda	Problem Solving
1. I would bring other issues to the discussion, such that I could trade off on other issues to resolve this issue in my favor.				x	
2. I would try to satisfy the expectations of JEL management			x		
3. I would use “give and take” so that a compromise could be made with JEL management		x			
4. I would argue with JEL management to show them the merits of my position.	x				
5. I would attempt to find other issues with JEL, so I could accede to their wishes at the same time as achieving my position on this issue				x	
6. I would try to find some middle ground to resolve this issue with JEL management		x			
7. I would use my influence to get my position accepted by JEL management	x				
8. I would attempt to accommodate the wishes of JEL management			x		
9. I would collaborate with JEL management to come up with a new solution acceptable to both of us					x
10. I would use my expertise in accounting to influence the resolution in my favor	x				
11. I would provide all relevant information to JEL management so we could solve this issue together in the context of other issues				x	



12. I would try to work with JEL management to find new solutions to this issue that satisfy both of our expectations	x
13. I would try to investigate the issue further with JEL management to find a new solution acceptable to both of us	x
14. I would try to play down the differences with JEL management to reach a compromise	x
15. I would try to satisfy the needs of JEL management	x
16. I would make concessions from my position to JEL management	x
17. I would try to bring all my concerns about this issue out into the open with JEL management so that the issue could be resolved in the best possible way	x
18. I would negotiate with JEL management so that a compromise could be reached	x
19. I would be firm in pursuing my position	x
20. I would try to work with JEL management to develop a proper understanding of this issue in the context of other issues	x

The research conducted for the current paper was made among Russian audit partners and consultants. Major problems which occurred at the initial stage of the research were caused by a limited number of previous studies on the topic and consequently arising problems of indicating the context of a research. In order to overcome the barriers of complicated and in-transparent Russian market, expert interviews with in-depth analysis were conducted. Due to an explorative nature of the actual paper, pre-research has played an essential role in defining the problem. It indicated limits, biggest concerns and difficulties which arise in Russian audit setting. Besides, it clarified differences between Russian and Western auditors' objectives and purposes for conducting an external audit.

When analysing Russian business environment, one should consider an inequality of wealth distribution in the society. As it was mentioned by the respondent during the pre-research, one should not underestimate a gap in the average revenues of the companies (and individuals) which operate in Moscow and in other Russian regions. Even though there are assumptions that an inequality in the wealth distribution between capital city and regions is getting smaller, this problem maintains its actuality for many future decades. The biggest international players are stronger represented in Moscow than in other smaller cities. One can assume that companies in Moscow have achieved much stronger behavioural shift toward Western way of doing business than enterprises operating in other regions. This argument, however, requires further studying and needs to be proofed. The differences in the strategic decisions and behaviour of auditors employed in international companies and auditors employed in national companies were only briefly mentioned in previous accounting negotiation literature. Due to

the limited resources, current study could not concentrate more precisely on this topic, so the issue requires more extensive analysis in the future.

For the purposes of current paper, in order to understand the differences in negotiation behaviour, two groups of auditors were identified and questioned. Auditors and consultants working in Moscow for international companies and auditors working in Voronezh for national audit companies participated in the research. Current paper will later discuss the differences and similarities between initial strategy choices of these two groups according to the results of the expert interviews.

Non-probabilistic judgment sampling was used in order to select the respondents. Sampling was based on the assumption that certain persons are better informed than others, have more experience and know-how in the field of accounting. Such sampling brought much more efficient method to assess the market. (Craig, Douglas 2005, p.285) Besides, snowball technique was used. Initial respondents were judgmentally selected and after interview they were asked to identify other auditors or consultants who would be interested in participating and who had an experience in conducting an audit activity in Russia. This technique was very helpful, because it was difficult to identify the target population. Besides, audit market in Russia is relatively closed and it is complicated for outsiders to get into it. As it was already mentioned earlier in this paper personal contacts play an extremely important role in Russian business setting. Author has exploited this matter of fact and asked auditors and consultants to recommend other auditors and to be recommended to the further respondents.

Due to the fact that current paper is rather of an explorative nature and due to the limited resources, a comprehensive quantitative evaluation of the results was impossible due to the small number of respondents. Nevertheless, respondents were very open for the sincere discussion and provided an author with valuable insights into the Russian audit system, so that a deep qualitative assessment of an accounting negotiation in Russia could have been conducted. Nine professionals participated in the study. They were asked not only to fill in the questionnaire based on the case study, but also to provide their personal opinion on the situation in Russian accounting environment, assess the case and express their judgement on the situation in general. From author's point of view, auditors provided their honest opinion due to the recommendations from other auditors and independent, academic nature of the current study. Some respondents noted, that it is very rare that Russian audit activity is being analysed purely for academic purposes by European academic institutions.

Current paper is based on theoretical research, which aims to examine the extent to which theories, models and constructs developed in one country can be applied in other countries and cultural settings. (Craig, Douglas 2005, p.30) In this paper the model and constructs developed by Gibbins, McCracken and Salterio based on the results obtained from Canadian respondents were employed. Current paper examined the extent to which the results obtained from North American auditors are in alliance with the results obtained from Russian audit partners, as well as whether Western model of choosing an initial negotiation strategy is applicable in Russian accounting setting.

Current paper used so-called assumed etic approach, which implies that the construct developed in one country exists in another and is completely applicable in another cultural setting. It was assumed that the construct developed in North-American accounting context would also measure an accounting context in Russia. (Craig, Douglas 2005, p.336) A question, whether the same instrument can be used in other country and culture, was of the biggest concern for the author. Pre-research indicated, however, a clear concept and determinacy of Russian auditors to follow the state-level regulations, to resolve the conflicts that did not include any culture specific characteristics, and were exposed to the rational evaluation of the negotiating issues. This implied measurement equivalence, in other words a concept of questions and constructs would be interpreted by Russians in the similar manner as by Canadians. Consequently the scale developed by Gibbins, McCracken and Salterio was used, scale items were translated, administered and results analysed according to the Russian audit context.

This method has numerous constraints and relatively limited consideration of the validity or equivalence of a measurement scale. Besides, it can only be assumed, that model of initial negotiation strategy choice originally developed for Canadian auditors is relevant and present in Russia. However, due to the fact that current paper has rather qualitative nature, the problems of statistical validity and reliability of the results are of less importance. Future research should be more quantitative, so that the appropriate tests to assess validity and internal consistency (such as Cronbach's alpha) can be conducted.

Fictive case and questions used in the current study were forward-translated from original language as in Gibbins, McCracken and Salterio into target language. First of all, author translated the issues from English to Russian. Then the help of one consultant working in one of the Big Four audit companies was used. The issues were back translated in order to achieve

translation equivalence by finding the equivalent words and phrases, so that the case would be understood as it meant to. An expert who consulted current paper for translational equivalence was not participating further in the study.

Questionnaire employed triangulation method and accordingly consisted of two parts: qualitative and quantitative. Triangulation method allowed assessing an overall situation while taking into consideration both, the results of an opened discussion and answers obtained in quantitative part. The first qualitative part started with an illustrative example which provided auditors with a frame of reference for the term “negotiation”. The definition was taken from Haskins (1987) and included following: “The representative of an auditing company (further Auditor) is on the way to a meeting with audit client company representative (further Client), to discuss an accounting issue that has arisen. The meeting is being held because the auditor and the client have different views about how to handle the issue in client’s financial statements and disclosures. Auditor has considered the process to be a negotiation, including the upcoming meeting.”

It was necessary to provide respondents with a possibility of an early exit if they never experienced such situation. All respondents answered that they have to face such situation all the time in their professional life. Further, seven open-ended questions were stated, whereas respondents were asked to read them out loud and to comment them verbally in order to provide the researcher with their personal opinion not only about the question but about the situation in general. These comments and the whole discussion were recorded on dictation device with permission of the respondents for the sequential analysis.

Quantitative part included a case which was directly translated and overtaken as in Gibbins, McCracken and Salterio (2010). Since the case included an overstatement of the net income, it was of a deep concern, whether it is reasonable to ask Russian auditors for their negotiation strategies in the situation, which was rather unusual in their everyday practice. An interview with an expert during the initial stage made it however clear, that it does not actually matter whether the net income is over- or understated. The biggest matter of concern for an auditor is any kind of deviation from the real financial situation so that it has to be adjusted. Thus, the case with net income overstatement was presented to Russian auditors.

Auditors paid a lot of attention to the contextual factors such as an experience of client company, size of client company and its importance in auditor company’s portfolio, an

experience of the representative of client company, and reputation of client company and its representative. Auditors had to make a rating on how likely they would use each of five tactics related to the five negotiation strategies and indicate the likelihood of implementing them using 8-point Likert scale from 1 “very unlikely” to 8 “very likely”. Finally, couple of demographic questions were stated including respondents position in the company, frequency of meeting the clients and years of professional experience in audit.

## 8. Results and Discussion

Pre-research was conducted on the phone with Managing Director of one Russian Audit company operating mainly on Russian market, situated in Voronezh (Russia), and having mainly national companies in client portfolio. Interview lasted about one hour and included six open-ended questions, which were changed and adapted to some extent during the conversation. Respondent discussed on the issues concerning overall business situation in the market, accounting policies, standards and state-level regulations. Besides, problems of corruption, business traditions and attitudes were mentioned. Results of an interview indicated important contextual differences between Western and Eastern auditors. Nevertheless, the technique and methodology of conducting audit in Russia turned out to be very similar to the Western practices.

According to the expert opinion, the biggest concern of Russian accounting system is a lack of experience in audit. In contrast to Western countries, where independent audit and external accounting programmes were successfully conducted for many decades, Russian audit as profession has only around twenty five years of experience and did not have yet developed its own know-how. Despite strong international audit companies which are acting on the market and serving as models for independent and credible external audit, accounting, and consulting, there are many national players who are still not wishing and not ready to adopt Western behavioural standards. The federal, state-level standards are superior for accounting activity. Companies operating in Russia are allowed to implement their own internal accounting standards, which should, however, be in compliance and to the large extent limited by federal regulations. Russian audit standards are not perfectly aligned with IFRS or US GAAP, but Russian auditors have to be able to control client's accounting activity irrelevant of the standards applied for client's reporting.

One of the most important differences noted by an expert during the pre-research interview and emphasized by other respondents during the research phase was a deviation of net income statement from real financial situation. Western auditors usually have to face a problem of overstatement of the net income, whereas Russian companies tend to understate their financial results. As it was mentioned earlier in current paper, Russian companies perceive high taxes as being very unfair and often try to avoid the bureaucratic costs by reducing the net income. All experts who participated in the study mentioned that net income overstatement is very rare and unusual situation in Russian audit practice.

As mentioned by an expert during the pre-research interview, it does not actually matter whether revenue is over- or understatement. The most important issue for auditor is deviation of a reported statement from the real financial situation of a client. For both, over- and understatement of the net income, there are precise standards and regulations stated in the federal law and in the standards for an audit control. Respondent emphasized that any kind of conflicts and disputes between client management and auditor have to be resolved on the basis of federal laws and regulations. These standards must be strictly implemented and they are superior for both parties.

Respondent mentioned the importance of self-regulated organizations and controllers that deal with internal standards of every company operating on Russian market. Western literature on accounting negotiation mentions a difference between external and internal audit, one should also note this difference in Russian business setting. Due to the earlier mentioned fact that Russian managers are still concentrating to the large extent on pleasing legal and taxation authorities, internal audit in Russian companies is very rare and is common only among the big international organizations operating in Russia. Federal laws of the Russian Federation allow companies to use their own internal standards, so self-regulated external organizations and controllers have to put a lot of attention when assessing client's accounting reporting and its alliance with state-level regulations.

According to pre-research expert opinion, in Western countries it is self-evident for the companies to have strict internal control system, which allows the companies to present credible accounting reports to the external users of financial information. External controllers serve rather as advisers and consultants to optimize company's internal processes. Even smaller Western companies have "transparent and trustful accounting which does not require that strict external control as in Russia". Some bigger enterprises in Russia are however obliged to have revision commission inside the company to conduct an internal control over accounting before presenting financial report to an external auditor and submitting it to the legal authorities.

Another important issue which came up during the pre-research concerned the large international companies successfully operating on Russian market and serving as model of Western accounting behaviour. Big Four companies represent a large segment on the accounting market and provide Russian companies with credible and independent audit, additionally offering external accounting and consulting services. It is very hard for the

smaller national audit companies to compete with Big Four due to the limited resources. Nevertheless, they still successfully challenge the Big Four due to their local market knowledge and know-how of the national market. Some national client companies wish to cooperate with Russian auditors. As it was discussed before, Russians are very proud nation and often they prefer doing business with local businesses than with Western international companies. It becomes evident that Big Four companies acquire local audit firms, giving them know-how and accreditation, at the same time expanding one's own market share and winning new customers who prefer working with national partners.

Conversation with an expert gave an insight into the problems of Russian audit with regard to corruption and bribery among Russian companies. Literature overview about corruption and empirical results of an expert interview indicate a strong shift in the Russian business environment toward more European values and attitudes. Even though corruption remains the matter of fact in Russian business setting, strict anti-corruption regulations and federal laws force companies to implement open and transparent accounting, which consequently reduces corruption and prevents illegal financial activities. Despite numerous programmes and large amount of regulations, corruption is still taken for granted in Russian social and business environment. Normally, company management tries operating within in-transparent market conditions rather than entering an opened confrontation with corruption.

Interviews with nine Russian professionals were conducted for the purposes of current paper. Respondent 1 was managing director at Russian audit company situated in Moscow, which belongs to the international group, and had twenty years of experience in audit. Respondents 2 and 3 were consultants in two different Big Four companies situated in Moscow, whereas Respondent 3 had one and a half years experience and Respondent 2 had over ten years experience in audit and consulting area. Respondents 4 and 5 were senior auditors in Russian audit company situated in Voronezh, which is a member of international group, and had respectively 15 and 14 years professional experience in audit and accounting. Respondent 6 was managing director at the same Russian audit company as Respondent 4 and 5, and had 14 years experience in audit setting. Respondent 7 had twelve years professional experience and had position of managing director and senior auditor at Russian audit company, which had no relation to the international audit companies and foreign partners. Respondents 8 and 9 were auditors working at the same company, having respectively twelve and nine years accounting experience. (Appendix 2)



Respondents discussed openly on situation in Russian audit market, providing insights far beyond questions stated in the questionnaire. Respondent 6 mentioned that an objective of audit in Russia and in general is to protect rights of the stockholders and to assure that they receive their shares according to net revenue of a company. Russian audit similar to Western aims to verify the accuracy of financial report in order to secure correctness of yields of shares. Any deviation in financial statement is not tolerated from auditor's point of view. Whether it is over- or understatement of the accounting report, Russian auditors have to deal with all types of mismatches in the financial statements.

When talking about general situation, some respondents mentioned that an importance of audit in Russia is rather underestimated. When compared, in Western countries audit is much more appreciated by companies and is of much higher importance, as mentioned by Respondent 7. Russian audit companies and their Western colleagues diversify their services providing their clients not only with audit programmes, but also offering consulting activities related to their financial activity. At the same time a lot of audit companies are externally conducting clients' accounting, especially if client is a small or medium sized enterprise which allocates at the initial stage of lifecycle and has poor experience in financial reporting. Experience of Russian auditors and their status is however still strongly undervalued, as noted Respondent 7.

As to Respondent 3, after signing the contract, auditor and client discuss all for an audit relevant issues in details. Whereas it does not matter, whether they have signed a contract for the first time, or whether it is reassignment of an auditor. As noted Respondent 3 and as it was mentioned earlier in this paper, Russian managers are changing their behaviour and becoming more opened and flexible, so that the companies, which have more resources in their possession assign external auditors for controlling activities not only to satisfy legal and taxation authorities, but also to attract the investors by presenting credible financial statements. For this purposes, audit activity can be conducted not only once a fiscal year, but also on the half-year basis for more precise reporting.

Respondent 5 mentioned that in case of voluntary (non-obligatory audit), when manager of a client company wishes to control some specific aspects of company's accounting policy, taxes or other financial issues, an audit control becomes much easier than in case of obligatory audit. During the voluntary audit, it is beneficial for client management to show a full set of documentation and to present complete information. Auditor will be able to conduct an

extensive analysis of a situation, define the problem, point out the client's mistakes in accounting and indicate shortcomings of an accounting system of company, as well as to give recommendations for the future financial reporting.

Before signing a contract with client's management, auditors rate a client company in terms of financial performance, market position and company's image. Besides, such factors as personal relationships, mutual trust, and mutual apprehension are assessed. For auditors it is very important to assess one's dependence on the client. From auditor's point of view, personal dependence is more important than professional. During initial stage, auditors evaluate scope and relevance of previous cooperation with a client, number and importance of contracts, and other aspects which influence auditor's professional activity and partnership with client. (Respondent 1)

When signing a contract, auditor and client management discuss such factors as structure of company, budget, future forecasts, etc. Auditor is allowed and has rights to ask for any information required for audit activity in the written form. Client management has to report verbally to an auditor the real situation of a company. From auditor's point of view the CEO, general manager, or the head of accounting department (in case of bigger companies) has to know by heart the actual situation of a company in financial and sociological sense and to be able to provide sound numbers verbally. First of all, auditors assess whether verbal opinion of the CEO matches the official documents provided by an internal control of a company (Respondent 3). Respondent 7 noted an important point, that at the initial stage of audit control, no discrepancies and deviations in accounting from the real financial situation are assumed. Auditors would argue about incomplete statement and require addition information only if discrepancies have been confirmed.

At this point it is important to mention the possibility of fraud and malicious suppression of information by client management. As explained by Respondent 3, conversation is held with top management of a company either CEO or CFO in order to investigate their opinion on how big is the possibility of financial deception in the company. Auditors are not specially searching or assuming any fraud, however they are aware of such possibility and take into account the risks associated with financial cheating. One should be careful in assessing a nature of a fraud. Not every discrepancy between stated report and the real situation is considered as cheating. Reasons for misstated reports can include such issues as human factor or error in mathematic calculations. If auditors confront undisclosed information, every audit

company has exact regulations and procedures to follow. They differentiate to some extent from each other depending on audit company internal policy and client. These regulations usually include following steps:

1) Auditors officially request necessary information in written form. As mentioned by several Respondents, client is actually obliged to disclose information which is necessary for audit activity. If client is vigorously opposing an information disclosure, additional contract, which states the limitations for an auditing activity, has to be signed. (Respondent 1)

2a) If information is provided to an auditor (or not provided) by client management auditors initiate more detailed research, which depends on specifics of a topic (contracts, definitions and demarcations, accounting memorandum, etc.). Problem which occurs at this stage is that provided information can sometimes be obsolete (e.g. contract concluded in 2002), incomplete, insufficient, or defective, so that auditor has to act in consistence with control program and defend one's positions. Managers, who are not willing to provide full information for some specific reasons, usually consider auditors as a threat for a company or as disturbing factor which is limiting company's activity. Objective of auditor is to get all information required for an audit activity without making any trade-offs and concessions. The harder a client is trying to hide something, the higher will be auditor's interest and more efforts should be made in order to get this hidden information.

In order to get required information, auditors would follow regulations and prescribed procedures. First possibility inquires sending several requests asking a client company to provide missing documents or reveal financial information. Requests can be written or they can be made verbally, for example on the phone or during the personal meetings. Verbally acquired information is of a crucial importance for auditor, because documents do not always provide sound overview of the current financial situation or provide only partial data regarding ambiguous issues. Auditors should carefully consider verbally received information and take always it into consideration, because as noted by Respondents 3, 5, 6 and 7, a lot of discrepancies and misstatements in the financial reporting can easily be solved and do not require any additional written documents and confirmations. Auditor and client management can resolve quickly some issues without any long negotiation process just by communicating with each other. It happens, that the required information was given previously for another purposes or another project.

2b) Client management often refuses to provide information intentionally or unintentionally. A reason for this can simply be large amount of a data, which cannot be transferred to an auditor in written form or electronically, or an audit company has not enough computer or human resources to process the large amount of data. Sometimes client management cannot provide the requested data, because it is missing. Some contracts and invoices are received later than by the time of audit control, so that client management cannot present these documents because they are still proceeding. Sometimes, client management and auditors will not receive the data on some contracts and documents until the end of audit process.

Policy of a company is another restriction and barrier to free access to the information. Some companies have extremely strict internal rules, which regulate information exposure to external users. Since audit activity involves unfolding certain sensitive information regarding company's actual financial situation, client management can sometimes resist exposing company's internal secret information.

If client management or auditor's contact person in the company refuses or is not authorized to provide auditor with necessary information, a request for information disclosure would be sent to the upper level authorities of a company (top management, directors, owner, etc.). Usually, top management would discuss an issue regarding information disclosure with a head of accounting department, and after internal discussion and consequential consideration, decision on auditor's request will be made. If decision-maker in a company is direct contact person of an auditor, an arrangement process will be much shorter and easier. In any case, auditors would talk to an authorized person (or responsible team) and explain that if client refuses to provide complete information, auditor will have to make a note to the Management Letter Point (MLP), which will include a statement that an audit could not have been done completely due to the undisclosed information (Respondent 3). As noted by Respondent 1, issues can also be transferred and solved in the court, however this happens very rarely.

During the audit activity, clients have usually no problems with information disclosure, and information is freely transferred between the parties, as mentioned Respondent 1. Auditors' activity is positively viewed by the client companies. Besides, managers do not usually wish to receive a note of incomplete audit control in the final report which is assessing their financial activity. Such a note would negatively influence company's image and future economic performance. So that client management would prefer disclosing information rather than receiving auditor's qualified opinion. Also it happens that auditor decides to change

one's assessment during negotiation with client management. Respondent 1 mentioned, that sometimes clients introduce very powerful and convincing arguments, which complement an initial statement, so the judgement of auditor changes. This, however, concerns further stages of negotiation process and does not occur at the initial stage.

Respondent 5 confirmed, that during audit process, negotiation between client and auditor changes, bargaining between parties becomes easier, and communication friendlier. If this situation occurs, even if client management refused to give some information at the initial stage of negotiation, later client makes concessions and discloses information in order to maintain good relations with an auditor. This confirms early mentioned statement, that Russians make large efforts to establish personal relations, and sometimes maintenance of good relationship might overweight some temporal financial profits, as in long-term perspective, it is beneficial for the companies and for managers to participate in the broad network of social and personal contacts.

As clarified all respondents, Russian companies still tend to prefer very traditional ways of conducting business activities, which are based on old-fashioned accounting and controlling system. It still can happen that the accountants or general managers in charge for communication with an external auditor may be excessively friendly and try to make a personal contact to an auditor. They would treat auditor as a very close friend, underestimating one's professional skills. Managers can handle auditors as colleagues who are not familiar with company's internal accounting systems and thus cannot make any deep financial analysis. Nevertheless, they would remain friendly and clarify all internal processes and reasons for some inconsistencies in the financial reporting (Respondent 3). As it was mentioned earlier, making personal contacts is one of specifics of Russian business environment and it is still very common in Russia to make personal relationships based on business. The fact that client management is trying to avoid formal communication during an audit process is to the large extent influenced by cultural specifics and should be taken into account.

Often accountants in the national Russian firms make the mistakes in the accounting, and consequently present distorted financial statement, due to their conservative and traditional attitude toward accounting issues. "We have done it this way for ten years and we will be doing it this way for another ten"- this phrase is often used by client management or responsible accountant in conservative Russian companies to describe the accounting

procedures implemented in a company. Even if sub-optimality and inefficiency of these procedures is confirmed, client management would still insist on following traditional procedures and may even turn aggressive if auditor remains persistent in pointing out the mistakes and tries to give professional advises. (Respondent 3)

As noted by Respondent 3 and 4, in Russia, auditors are still often viewed as rather incompetent third parties. This means that managers would consider auditor's requests as unnecessary and senseless. Managers can be sceptical toward external auditors and consider them as being under-qualified. This happens due to the early mentioned fact, that Russians still tend to concentrate on appraising of the legal and taxation authorities, and disregard the benefits the external audit provides the company with. Some managers would still be aggressively muted toward auditors and prefer finishing the control process as soon as possible. In this case, even if the information was provided to the auditor, it has to be double-checked, because it still can have problems with actuality and correspondence to all requirements.

International companies acting in Russia usually have very strict internal and external control, so that the risks of any misstatements in company's accounting are very low. Besides, financial reports of international players are usually controlled by mother organizations or headquarters. Respectively, if company's financial reporting has no discrepancies and corresponds to the state-level accounting standards, external audit would rather be seen as unnecessary process and auditors as distracters and irritating third parties. Due to the fact, that the big international players have own departments in charge for accounting and consultancy, any external advises and judgements would rather be critically accepted. Controversially, Russian national companies perceive auditors as "best friends", with whom they would try to make very close contacts in order to avoid future problems with accounting, legal and taxation institutions in the future. (Respondent 3)

First part of the questionnaire included questions with regard to an overall attitude of the respondents to the situation in accounting field in Russia. The questions were:

1. Have you ever participated in negotiation with clients during your career as an auditor?
2. Have you ever initiated negotiation process?
3. Have you ever initiated successful completion of negotiation?
4. Have you ever experienced an early termination of negotiation process?

5. If yes, which were the most common reasons?
6. In your opinion, which factors are the most relevant for successful negotiation process?
7. In your opinion, which factors are the most crucial in finding solution for negotiated issue?

All respondents have participated in negotiation with clients during their professional career in audit. Besides, all the respondents have initiated both the negotiation process and its successful completion. Auditors then were asked to bring some examples from their professional experience explaining possible reasons for early termination of negotiation process. As it turned out, the most unclear was fourth question, because it was very difficult for auditors to understand the term “early termination of negotiation”. Some respondents have never experienced a situation when negotiation process stopped before reaching any outcome. However, the most often mentioned reason of unsuccessful negotiation was the structural changes in client’s company management. For example, if a client company is being a subject to deep restructuring, a new management may decide to choose another auditor or auditing company. Respondents 1 and 7 both mentioned that they have experienced the situation when it was beneficial for the new director not to show the mismatches in financial statement due to the corruption and illegal contracts.

Another possible reason for interrupted negotiation could be a disagreement between auditor and client with regard to the price of an audit activity. Respondent 1 and 2 emphasized that price setting is sometimes of crucial importance when initially negotiating with client. According to Respondent 2, negotiation can be terminated due to the “principal unacceptability of the offers by one of the negotiating parties” for formal and informal reasons. Informal reasons in this context could include such aspects, as too high price for audit or very limited information about client’s financial activity. As mentioned Respondent 2, too cheap offer made by auditor might be suspicious for the client and thus terminate further negotiation. If auditor proposes too low price for audit or consulting services, client might think that it is a fraud or that an auditor is working for some competitor company and is willing to get company’s internal financial data. Also formal reasons may serve as barriers to further negotiation and jeopardize business relationship between client and auditor. Formal reasons for negotiation discontinuation include client’s failure to follow the standard procedures and malicious violation of a financial reporting by the client, as mentioned by Respondents 2 and 6.

When talking about factors which are the most relevant for successful negotiation process, Respondents 3 and 4 mentioned the importance of precise definition of a statement. Auditor has to draw a clear agenda and exact definition of the judgement. Correct argumentation of one's point of view and judgement, as noted by Respondent 6, is one of the most important factors enhancing successful negotiation process. Respondent 5 confirmed this statement by mentioning the fact that auditor has to prepare thorough and exact agenda when entering negotiation with a client. Auditor has to be prepared for all possible results and outcomes of negotiation and to have precise plan of action. Clear agenda and thorough preparation for a negotiation will help auditors to communicate plausibly one's point of view, define the problems and to woo a client to accept auditor's position.

Another important factor mentioned by Respondents 7 and 9 is professional competence of parties. Without doubts auditor and client management (or another contact person in charge for client's accounting) have to show an extensive know-how in the field of accounting and financial reporting. As to Respondent 4, a deep knowledge of law, accounting standards and legal regulations is one of the most important factors affecting an audit negotiation at all stages. If auditor presents an opinion formed on extensive legitimate basis and according to the well prepared agenda, cooperation with a client will stay on highly professional level, a whole negotiation process will be efficient and results will be mutually beneficial.

As mentioned Respondent 3 even if client has less experience in accounting and financial reporting than an audit company, one should be able to implement high level diplomatic skills and stay professional. Auditor should never conduct conversation telling that a client made a mistake, pointing out the wrong data stated in the report, and indicating one's superiority. As result, Russian managers might get aggressive, besides such behaviour enhances the risks of termination of negotiation and business partnership. Thus, auditors should try to make a dialog with clients rather than trying to teach them.

Respondent 2 mentioned that an attitude of both parties and their willingness to solve the conflict is of the crucial importance for negotiation process and for successful solution finding. Additionally, an experience in solving the conflict situations and finding solutions acceptable for both parties plays an important role in general and in audit negotiation. In order to successfully resolve a conflict auditor has to define the future activities and objectives, and make a clear action plan, as mentioned Respondent 3. In order to resolve the disputes, auditor



has to avoid misunderstandings and avoid direct confrontations if the client is aggressively attuned toward auditor, as to Respondent 3.

Respondent 5 also mentioned the fact that mutual correct understanding of a problem will lead to the desired outcome. Even if auditor's and client's points of view diverge, auditor has to avert any personal combative attitude and stay professional, reclining on agenda and objective assessments. As noted Respondents 2 and 3, if a conflict was transferred to the personal level and no positive solution can be expected, finding another contact person in the client company to continue audit activity will have positive effect on the professional assessment process and will lead to higher joint utility.

Respondents 5 and 7, who are both working for different national Russian companies, noted that in Russia making a personal contact with client and having personal magnetism will help auditors to achieve a desired outcome. Respondent 5 emphasized, that often informal negotiation is the only way to achieve conflict solution with client, but even in this case auditor has to convince the client in one's proficiency and substantiality of auditor's requirements.

Second part of the questionnaire included dummy case study and respondents were asked to prepare for fictional meeting and to point out the likelihood of choosing different intended negotiation tactics. Some respondents also provided their opinion on the case and its relevance in Russian audit setting. Respondents' comments are of a high importance for the future research as they provide an important insight into Russian cultural and business environment. As mentioned by Respondent 2 after reading the case and before answering the questions in second part, next year's income of the fictive company will decrease due to the income overstatement in the annual report. Having mercy upon a client and using conceding tactics will not solve the problem of client in the long term perspective. Besides Respondent 2 mentioned that auditor or consultant have to resolve the problem together with the client, clarify client's position, explain the reasons lying behind it, and work out together possibilities for a compromise.

Respondent 2 mentioned the importance of giving up on the issues which are not important for an auditor or consultant, but which can be of principal importance for a client company, thus trading them for the issues of higher importance. Since the representative of a client company should always report to the general manager how negotiation is proceeding, why one or another negotiating strategy was chosen, the reasons laying behind such choice, and an

outcome, the choice of negotiation strategy is to the large extent influenced by other players than those directly participating in negotiation.

The size of a client company, as mentioned by Respondent 2 (in this case a client company was quite small), is not important because an audit company should not ruin its reputation and image, that is why every client is important. However, an audit company would spend fewer resources on resolving an issue with smaller client than on resolving a problem with bigger and more important player. Conflicts with bigger clients would probably be resolved by the big auditors' team, whereas smaller companies will be controlled by one or two auditors.

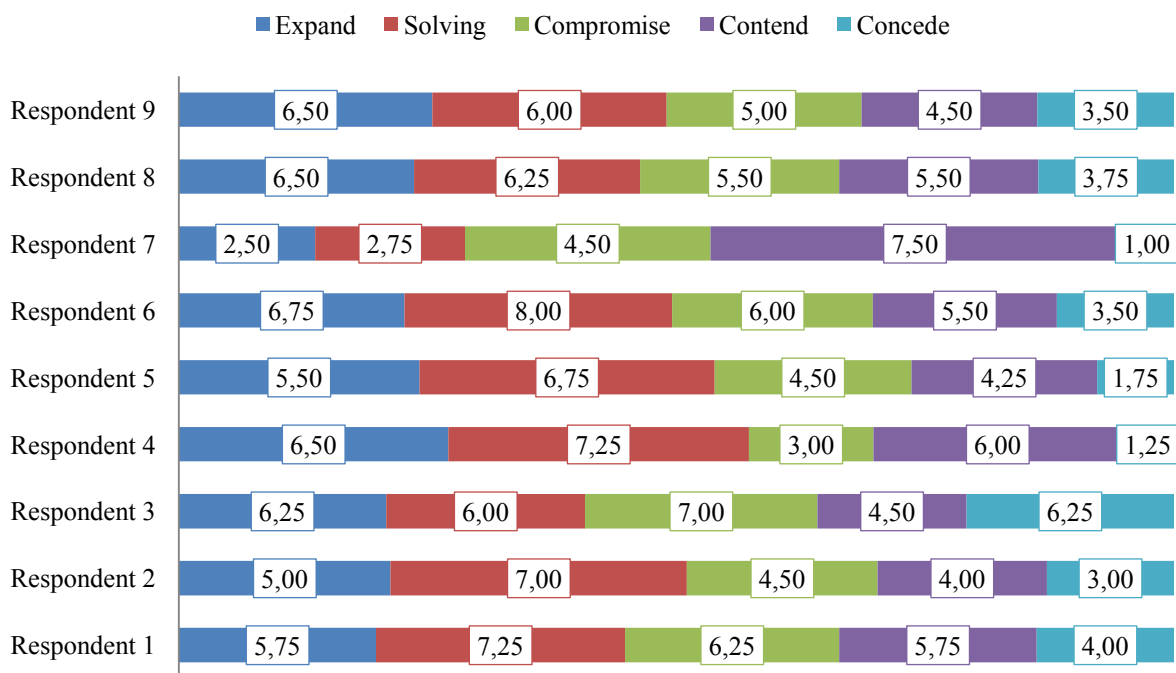
As confirmed by the Respondent 5, compromising strategy is workable solution, but first of all auditors would try to prove their correctness introducing corresponding state-level regulations and trying to convince a client in the superiority of the law if client's management tries to escape some procedures or disclosures. During the negotiation, auditors assess carefully client's position, trying to understand underlying motives and reasons, and try to get a proper understanding of client's arguments. Only after both-sided understanding of the situation, auditors would start working on a solution, discuss problems together with a client, compare points of view, try to find commonalities and differences in the positions and consequently develop common solution.

Respondent 5 and 7 also mentioned the possibility and need for using contending strategy. They explained that sometimes client is principally not willing to accept any other positions or make any concessions, so the auditor might start to contend. As it was discussed earlier in current paper and as mentioned Respondents 1, 5 and 7, Russians as individuals and as professionals are very proud nation and they can be stubborn in admitting one's own mistakes and accepting somebody else's position. In this case, due to the specifics of Russian business culture, contending strategies will force client to do some concessions and help auditor to get missing information. After initial usage of contending strategy, parties can start trading on the issues finding compromise or other integrative solution.

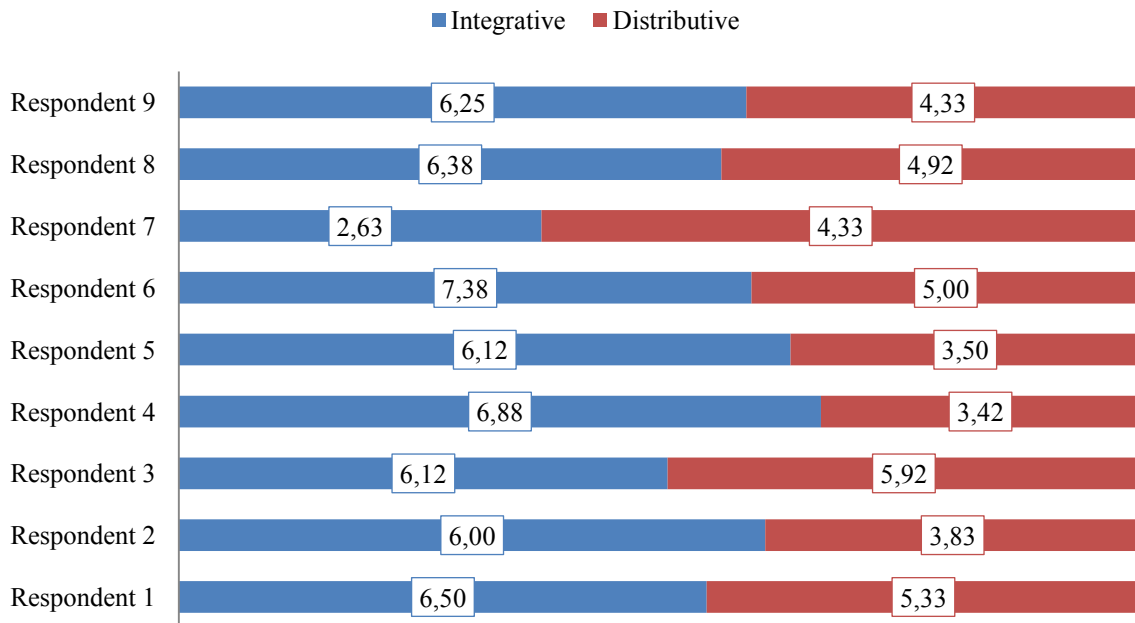
Respondent 5 openly spoke about problems of corruption and dominance of informal business activities in Russia. Respondent brought a real life example from one's own professional experience. It can happen that there is still a conflict of interests between auditor and client management, which could not have been solved during negotiation. Final report of an auditor contained a note, that audit could not have been conducted properly due to the undisclosed information. Qualified opinion of auditor was then sent to the head office of a client company,

but after internal discussion between general management of audit company and general management of client company, auditor's opinion had to be rewritten and positive unqualified assessment presented. As it was mentioned by Respondent 1, 5, 6 “unfortunately, it is still common in Russia”. One can conclude that even if the legal system is strongly fighting against corruption and illegal activities, one cannot explicitly eliminate a high frequency of informal practices and has always take it into consideration.

Even though the small number of respondents does not allow comprehensive statistical evaluation of the results, each respondent's tactical decisions in second part statements' were separately evaluated and were assessed according to the Likert scale means, where 1 indicated “very unlikely” and 8 “very likely. Following chart shows graphical distribution for likelihood for using each type of strategy by respondents:



Problem solving strategy had the highest mean and was the most likely to be used by Respondents 1, 2, 4, 5 and 6. Respondents 8 and 9 would choose agenda expanding strategy and Respondent 3 would most likely compromise. Respondent 7 was the only one who would most likely prefer using contending strategy according to the circumstances given in the case. The same Respondent would also be the most unlikely use conceding strategy as well as Respondent 4. Conceding strategy would also be most unlikely used by all other respondents as well. When aggregating the data further and combining five strategies into the integrative and distributive strategy categories, one notices a clear pattern shown in the following graph:



Russian auditors, despite socio-geographical factors, would most likely use integrative strategies after initial assessment of client's accounting situation and confirmation of overstated financial report. The highest mean among all in questionnaire presented tactics had those which were used for integrative negotiation strategies. Earlier mentioned assumption, that auditors from Moscow would prefer using other strategies than their Voronezh colleagues, could not be clearly confirmed and had no logical or statistical significance according to the received data, should however be further researched.

One cannot draw statistically significant results due to the small number of respondents; one can however make a qualitative assumption based on respondents' general attitude, preferences and comments. Most of the respondents would use either problem solving or agenda expanding tactics, which implies that Russian auditors would initially choose integrative strategy. To conclude, qualitative evaluation of the hypotheses indicated that H0 would be supported, so in Russian audit companies, auditor's initial negotiation strategy will more likely be integrative than distributive.

## 9. Limitations and Future Research

Current paper is one of the few in the field of accounting negotiation between auditor and client, and conflict solving on the basis of financial statement in Russia. Many papers were written to explain a situation in North American and Western European market, Eastern Europe and Russia remained however disregarded due to the complicated geopolitical and economical situation in the former Soviet republics. Research on conflict management in Russia had to be conducted on a qualitative basis in order to get a competent insight into the situation on audit market in Russia and consequently investigate auditor's initial negotiation strategy when facing a disagreement with client management. The features, used to assess situation in general and behaviour of the auditors in particular setting were compared to the items worked out during the previous researches and investigating similar problems.

Besides specifics of Russian audit and accounting environment, Russian business environment in general sense was described and compared to the Western business practices. Effects of Russian culture on everyday formal activities should not be underestimated and should be taken into account when studying accounting and audit negotiation. Besides, it was examined whether auditors in Russia would prefer choosing initially the same negotiation strategy as their Western colleagues when there is an apparent overstatement of the financial report. Despite a deep insight provided by the experts, a quantitative confirmation of the results and conflict solving is still required.

Qualitative nature of the research gave a possibility to understand, that audit negotiation in Russian accounting setting is to the large extent similar to the negotiation in Western business environment. Gibbins, McCracken and Salterio (2010) indicated a preference of an auditor to initially choose integrative strategies. Results obtained from Russian auditors' opinions indicate that integrative strategies would also be initially preferred in Russian accounting negotiation. Nevertheless, these results cannot be statistically evaluated and verified until the responses from bigger sample are drawn and would indicate statistical significance of the results. Future research has to be more quantitative in its nature and include auditors with variable professional experiences, age, and place of residence. The last requirement is another issue to be investigated in the future.

Due to the fact that the biggest international players are represented mostly on Moscow market, one can assume that the behaviour of actors participating in Moscow international

environment could be different of those acting in other regions in the Russian Federation. Even though, current study was made among specialists from Moscow and Voronezh representing both international players and nationally oriented companies, one cannot find any obvious differences in the intended negotiation strategies between these two groups. In order to draw statistically significant results between groups of auditors from Moscow and other regions such as Ural, Volga, West and East Siberian, and others, larger sample is required.

Another important issue to be further investigated is whether auditors would choose the same initial negotiation strategy if there is an apparent understatement and not overstatement of the financial report. As it was noticed by respondents, usually Russian auditors have to deal with understatements in financial activity. Due to the high income taxes and bureaucratic costs inquired by regulations, which are perceived as being unfair, managers try to overcome them by any means, so that writing-downs and other net income reducing changes are sometimes made in the reports. Despite the fact, that theoretically, respondents constituted their preparedness to implement the same conflict solving techniques as they would have used in case of clear overstatement, this problem requires deeper research.

Most of the respondents showed surprised reaction when reading the case presented in the questionnaire, when they realized an overstatement in the net income. This was rather untypical setting for Russian auditors and consultants, so that one cannot be completely sure which strategy would be preferred if client management reported understated net income. Most of the respondents confirmed that it does not actually matter whether the revenue is over- or understated, because an overall goal of auditor is to find out whether the reported information corresponds to the real financial situation of a company. If there is any kind of deviations, auditor has to deal with them according to the RAS norms and state-level regulations. Assumingly, an initial choice of negotiation strategy would not change in case of any kind of discrepancies in the financial statement. However, it is important to investigate, how auditor's behaviour and initial strategy choice would change if it is known that a net income was intentionally decreased by a client, especially if one intentionally tried to withhold such information. It can be speculated, that in case of intended information hiding, auditor would choose more aggressive contending strategy.

In general, methods and strategies used by Western auditors are very similar to those used by their Russian colleagues. North American and Western European literature on accounting

negotiation and conflict management between auditor and client is applicable in Russian setting due to the professional nature of this problem. There are still many issues to be studied further, but Russian auditors are changing their behaviour and attitude toward more Western standards. RAS is continually making adjustments to be more in compliance with IFRS and since these state-level regulations serve as basics for communication between auditor and client, one can conclude that Western methodologies used to analyse audit conflict management are also applicable in Russian accounting setting.

## 10. Conclusion

Negotiation process has been a subject to the large amount of studies during the last several decades. General negotiation literature indicates negotiation as highly interpersonal process which is strongly influenced by individual's attitudes, beliefs, cognitive biases and other social aspects. Negotiators have to determine one's limits and objectives at the initial stage of the bargaining process, set overall goals, and decide on strategy and tactics required to achieve the goals. A choice of initial strategy influences the whole negotiation process as well as future relationship with a partner. According to the available information, situational context and circumstances parties have to choose bargaining strategy, which can later be changed or adapted to the actual situation.

When analysing audit negotiation, besides social and psychological barriers, one should take into consideration a strong influence of the institutional, organizational and structural forces. Professional nature of audit negotiation is strongly connected with accounting standards, such as US GAAP, IFRS, or RAS. Implementation of these standards depends on a company and its financial policy, nevertheless when controlling accounting activity, auditors have to present their opinion based on the superior regulations. Conflicts between auditors and clients usually arise due to the nonexistent or misinterpreted accounting and auditing standards. Accounting standards, statutory powers and deadlines constraint negotiation and limit the set of possible solutions.

Strict regulations such as IFRS or RAS would make the negotiation more efficient and facilitate an achievement of mutually acceptable and fairly perceived outcome. If auditor and client cannot agree upon degree and precision of information disclosure, the standards would constitute a size of an estimate and degree of disclosure. Statutory powers of legal, regulatory, ethical and contractual authorities affect to the large extent the negotiation around accounting issues. Investors, creditors, tax authorities and other actors are interested in and rely on financial statements, which in turn implies, that auditor-client negotiation involves objectives of the third parties who are not directly participating in the bargaining process. Since current paper focuses on auditor's role in the accounting negotiation, one will have to consider carefully initial strategy and further adoptions in strategy to meet the interests of all direct and indirect participants, especially if net income reducing adjustments have to be made in client's financial statement.



Research on audit-client negotiation has confirmed that financial statements are materially affected by bargaining between parties (Hatfield, Agoglia, Sanchez 2008 p. 1205; Perreault, Kida 2011, p.546). Client management and auditor have initially different reporting objectives when being involved in the conflict which revolves around recognition of revenue of a client. At the initial stage of negotiation process, parties have to assess the situation, depth of a conflict, decide on the range of possible outcomes, evaluate the alternatives, opportunities, limitations, and set goals which reflect their desired results. The choice of initial strategy has an impact on the whole negotiation process and consequently on results.

Current paper differentiates between integrative and distributive strategies. Distributive negotiation includes contending, conceding, and compromising strategies. Integrative bargaining is represented by expanding the agenda and problem solving strategies. Generally accepted fact is that integrative strategies are more preferable in negotiation process, because they result in higher joint utility and bargainers perceive an outcome as being mutually acceptable and fair. Distributive strategies, in turn, imply a “fixed pie” situation, where one or both parties will get less benefit as potentially possible. Even compromising solution might be perceived unfair by one or both negotiators and result in lower joint utility.

When studying characteristics of Western and Eastern audit and accounting negotiation, literature concentrates mostly on the problems related to taxation, legislation, state-level regulations, currency fluctuations, corruption, and other differences. When analysing auditor-client negotiation in Russia, first of all, one has to consider a high context of the culture on the individual level and in the organisations, where personal contacts and relationships play a crucial role in business activity. Besides, tax authorities are still the main audience for company's financial statements and are perceived as a problem and main concern for many managers and their auditing partners. Companies have to pay large income taxes and some managers are convinced that high percentage of the net income, which is paid for taxes, is unfair, irrational and unreasonable. The higher the income of the company is, the more taxes have to be paid. Auditors' opinion influences strongly the amount of taxes a company will be obliged to burden itself with, so auditor is serving as an advocate before the tax inspectorate. This leads to a very important difference between Western and Russian companies indicating that Russian companies tend to understate their net income in financial reporting, whereas Western companies overstate their income to attract investors, gain better ranking and earn extra bonuses.

Nevertheless, strong presence of international audit companies and international client companies conducting transparent accounting increases quality and credibility of Russian audit activity. Despite existing problems of corruption and grey market, Russian audit is becoming more independent and shifting toward Western practices. Difficulty of conducting economic activity in Russian business environment conceals not in federal laws, but in “their selective application” (John Browne, ex-CEO of BP). Sometimes regulations are only partially fulfilled and behavioural codes disregarded. That makes an impression of total disorder and lawlessness.

One should differentiate between corruption and informal practices which are broadly used in Russian business environment. Informal practices set a frame for individuals’ expectations for trustful or mistrustful negotiation. If both parties expect to achieve a mutually acceptable negotiation outcome by using the informal practices and trust each other, corruption and informal rules can be rather seen as means to achieve the goal in a situation where formal rules and structures work imperfectly. As it can be concluded, sometimes informal procedures should be seen not as corruption indicators, but as indicators pointing to the ineffectiveness of the formal practices and serve as a proxy showing the local know-how.

Informal practices form everyday life helping private sector agents to resist to ineffective governance of state institutions and to broad political corruption and to fight the unfairness of regulations. Term “blat” is used to describe a common practice of informal activity used in Russia. It is a practice of offering favours to the people in the immediate communication circle. When speaking of “blat”, all types of favours can be provided and they are normally paid directly without official invoices but usually they do not comprise money but conducted as barter. Term “blat” is rather seen as a form of cooperation and mutual support driven by mutual interests, trust and serves as an indicator for long-term relationship.

Due to the fact that RAS and IFRS are shifting toward each other, unification not only of the standards but also of professional and cultural attitudes is becoming more evident in Russian accounting field. This shift increases quality, uniformity and international comparability of accounting principles and audit practices. The accounting activity is modernising changing the attitudes and expectations of auditors and client companies. It is however evident, that large number of national companies is still reporting their financial activity in informal way and conducting negotiation in purely traditional manner.

Taking into consideration the differences in social, political, legal and economical situation, as well as differences in accounting standards and attitude of opponents, auditors would choose a strategy which will help them to achieve respective goals. Current study conducted a qualitative analysis of accounting situation and initial strategy choice among Russian auditors and consultants. In depth interviews with nine professionals from audit and consulting field were conducted in order to clarify the market situation: additionally pre-research with an experienced Russian auditor was conducted. Results indicated that any deviation in the financial statement is not tolerated from auditor's point of view. Whether it is over- or understatement of the accounting report, Russian auditors would have to deal with all types of mismatches in the financial statements.

Client is always obliged to disclose information which is necessary for audit activity. If client is vigorously opposing information disclosure, an additional contract which states the limitations for the auditing activity has to be signed. There are precise regulations and standards presented by RAS and IFRS which have to be followed in case of information nondisclosure or distortions in client's financial statement. Auditors would make several requests in verbal or written form and if client still refuses to disclose the information, a remark that audit control could not have been conducted properly due to the unavailability of the data, will be included in the auditor's final opinion.

At the initial stage of audit control of any accounting report no discrepancies and deviations from the real financial situation are assumed. Auditors would argue about incomplete statement and require addition information only if discrepancies have been confirmed. It is crucial to show the client a high professional level and explain exactly the necessity of making any kind of adjustments in the financial report. Auditor has to be prepared for all possible results and outcomes of negotiation and to have precise plan of action. Clear agenda and thorough preparation for negotiation would help auditors to communicate plausibly one's point of view, define problems, woo the client to accept auditor's position, which is usually based on the state-level standards and regulations, and explain the superiority of the law.

An attitude of both parties and their willingness to solve the conflict is of the crucial importance for negotiation process and for successful solution finding. Mutually correct understanding of a problem will lead to desired outcome. Even if auditor's and client's points of view diverge, auditor has to avert personal combative attitude and stay professional, reclining on agenda and objective assessments. In Russia, making a personal contact with a

client and having personal magnetism will help auditors to achieve desired outcome. Often, informal negotiation is the only way to resolve a conflict situation, but even in this case auditor has to convince the client in one's proficiency and substantiality of auditor's requirements.

During the negotiation, auditors assess carefully client's position, trying to understand the underlying motives and reasons, and try to get a proper understanding of client's arguments. Only after both-sided understanding of situation, auditors would start working on agreement and consequently develop mutually acceptable solution. Sometimes, client is however principally not willing to accept any other positions or make any concessions, then auditor might start to contend. Russians as individuals and as professionals are very proud nation and they can be stubborn in admitting one's own mistakes and accepting somebody else's position. In this case, due to the specifics of Russian business culture, contending strategies will force client to do some concessions and help auditor to get the missing information. After initial usage of contending strategy, parties can start trading on issues finding a compromise or other integrative solution. Nevertheless, almost all respondents showed their preparedness to use initially integrative strategies to resolve conflicts with their clients.

Russian managers are changing their behaviour and becoming more opened and flexible. Companies assign external auditors for controlling activities not only to satisfy legal and taxation authorities but also to attract the investors by presenting credible financial statements. One can argue that even if legal system is strongly fighting against corruption and illegal activities, a high frequency of informal practices cannot be eliminated and has always to be taken into consideration. Russian auditors are forced to operate under vulnerable and unstable market conditions due to the short history and inexperience of independent Russian accounting system. Nevertheless, a strong behavioural change can be observed, confirming the fact that Russian auditors are becoming more experienced and are prepared for the further changes. Along with the need for credible financial statements and trustful professional assessments, a number of independent auditors is strongly growing.

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## Appendix 1. Pre-Research

1. What are the specifics of the Russian market for the audit analysis?

“In Russia, we have very high income tax. Furthermore, there are a lot of companies who have to pay additional taxes, which are held very unfair against companies. In order to reduce the tax burden, companies try to hide some part of the income. Russian audit system allows the usage of the company’s internal standards which are limited by the federal standards.”

2. To which extent are you using the federal standards and internal standards and in which proportion?

“There are two levels: upper level-federal standards (are developed by the Ministry of Finance) and lower level-internal standards (developed by the firm itself). Each company’s internal standards, their implementation and accordance to the Russian Federal Laws are controlled by the self-regulated organizations and controllers. “

3. How do you conduct the negotiation in the pre-audit phases and how can conflicts be solved at this point?

“For both cases, for over- and for understatement of the company’s income, there are concrete rules and regulations listed in the federal laws and standards for the audit control, which must be followed when conflict arises. “

4. Is it necessary to establish a revision commission in Russia? What is the revision commission? (“ревизионная комиссия“)

“There is an internal control. There are companies with limited responsibilities which are not obliged, but can have the internal control commission. But bigger companies (AG) are obliged to have a revision commission, which conducts its own internal control before submitting company’s annual financial statement.”

5. Have you ever heard about social audit?

“In Russia, there is only limited social audit. This concerns only employees of the company (e.g. the qualification of the employees and their suitability for the job and position). But this type of audit is not very popular among Russian companies. Only bigger, transnational

companies sometimes hire companies who specialize on the social audit, for the internal control of their employees. “

6. There is statement, that Russian companies are not willing to hire the foreign, international audit companies. What do you think?

“In Russia, the big international companies are represented in face of Big 4(Ernst&Young, KPMG, Deloitte, PWC). Very often these companies overtake Russian audit companies and accredit them; so that a lot of small companies take part in the bigger company. “

## **Appendix 2. Qualitative Research (Comments to the Questions)**

### **Respondent 1 (Managing Director at Russian Audit Company which belongs to the international group, directing auditor)**

1<sup>st</sup> part: The reasons for termination of the negotiation process: 1) Parties could not agree on the price for audit activity. 2) The management of the client company has changed during the negotiation process.

At initial stage: Rating of the company, the company image, personal relationships (not the personal dependence of the auditor on the client company, but the professional dependence, relationships, previous cooperation, previous contracts), mutual trust, and mutual apprehension.

At information disclosure stage: the client is obliged to disclose information. If he is not willing to do this, the additional contract is signed, which states the limitations for the auditing activity.

Usually of course, during the project, clients have no problems with information disclosure, and information is freely transferred between client and auditor.

Very rarely the issues are transferred and are solved in the court (but never happened in this company during past 20 years).

Results according to Likert scale: Highest mean has problem solving tactic.

### **Respondent 2 (consultant at one of the Big 4 Companies):**

1<sup>st</sup> part: Reasons for termination: Principal unacceptability of the offers by one of the negotiating parties due to: A) formal reasons (failure to follow the standard procedures); B) informal reasons (too expensive/cheap/ no data available)

Important: 1) Attitude of both sides and their willingness to solve the conflict. 2) The experience of the parties in solving the issues and finding the solutions acceptable for both parties.

2<sup>nd</sup> part: Comment: The next year's income will decrease due to the income overstatement in the annual report that is why having mercy upon the client and using the conceding tactics will not solve the problem of the client in the long term perspective.

The overall situation is that you always have to resolve the problem together with the client, show him your position, explain the reasons lying behind it, and of course find the possibilities for the compromise.

Give up on the issues which are not important for you, but which can be of principal importance for the client company. The representative of the client company should always report to the general manager how the negotiation is proceeding and why did he chose those negotiating strategies, what were the reasons, and what were the outcomes.

The size of the client company (in this case the client company was quite small) is not important because audit company should not ruin its reputation and image, that is why every client is important. However, the audit company will spend much less resources on resolving the issue with the smaller client than on resolving the problem with bigger and more important client. The problems and issues with bigger clients will probably be resolved by the big team of the auditors, whereas smaller companies will be controlled by one or two auditors.

Results according to Likert scale: Highest mean has problem solving tactic.

**Respondent 3 (consultant at one of the 4 Big Four companies):**

After signing the contract auditor and client discuss everything in details. Whereas it does not matter, whether they have signed the contract for the first time, or whether it is the repetitive audit contract (it can also be the half-a-year audit). Under discussion are such factors as, structure of the company, budget, future forecasts. Auditors have right to take any information in the written form, but auditors have to hear verbally, what is the real situation in the company. CEO has to know, what the current situation in the company is, with all the

numbers included. There should be an internal control in the company, so that the verbal opinion of the CEO matches the official documents.

Fraud: The negotiation is conducted with CEO or CFO to investigate their opinion on how big is the possibility of fraud in the company. The fraud is not searched by default by auditors, however auditors have to take into consideration the possibility and risks associated with fraud.

Undisclosed information: 1) Auditors officially request the needed information in the written form.

2) If the information is provided to the auditor (or not provided), auditors start the more detailed search, which depends on specifics of the topic (contracts, definitions and demarcations, accounting memorandum, etc.). Problem is that the provided information can sometimes be obsolete (e.g. contract from 2002) incomplete, insufficient or defective, so the auditor has to be consistent and defend his positions. Managers who do not want to provide full information for some specific reasons usually take auditors as a threat for a company or as irritating factor. The objective of auditor is however to get the information which is required without any trade-offs. The more clients try to hide something, the higher should be the interest of the auditors and implemented forces to get this specific hidden information.

How to get the required information? 1) Sending the requests for several times, it can be made written or verbally by means of personal communication. Auditors should always consider carefully the information they got verbally, because some issues can be resolved very easily and do not require any additional written documents. Sometimes the required information was given previously for another purposes or another project. 2) If the management does not want to provide the information (reasons: large amount of data; we do not have this data and will not have the actual data till the end of the audit; policy of the company does not allow to provide the data), then the requests for information disclosure will be sent by the managers on the higher positions in the company (directors). They talk to the main accountant of the client company, and explain that if the client will not provide the complete information, auditors will have to make a note in the Management Letter Point (MLP), that the audit could not have been done completely due to the undisclosed information. 3) Main accountant of the client company has to make a decision by himself, or/and discuss it with general manager. Usually, however, the auditors are viewed positively by the client companies. Pretty often, auditors are viewed as incompetent third parties.

Are there some differences in the negotiation process, if the client company is Russian and Non-Russian?

In Russian companies, the accounting process is still very traditional and is based on the old-fashioned ways of doing the accounting and controlling. The accountants may be very friendly and view an auditor as their best friend, who does not understand anything in the accounting. Often the accountants in the purely Russian firms have the discrepancies in the accounting policies and procedures due to their conservative attitudes to the accounting issues.

International companies usually have very strict internal and external control, so that the risks of some internal accounting discrepancies are very low (their reports are usually controlled by the mother companies or headquarters).

For Russian companies auditors are “best friends”, with whom they try to make very close contacts in order to avoid the problems with accounting and law in the future. For international organizations, auditors are rather distracters and irritating factors.

1<sup>st</sup> part: Precision of the statement; clear agenda; never telling the client, that he was wrong (otherwise he will get aggressive), never telling “You are wrong, and I have correct data”; making the dialog with the client.

Definition of the future activities, making the plan; conflict absence even in case of divergence of opinions; avoid conflict if the client is aggressively attuned; if the partner in negotiation is very aggressive and you feel you will not be able to find a solution, try to find another contact person; avoid misunderstandings and understatements.

2<sup>nd</sup> part: In Russia, net income is more often understated.

Results according to Likert scale: Highest mean has compromising tactic.

**Respondent 4 (main auditor at Russian company, Voronezh):**

1<sup>st</sup> Part: Exact statement of the opinion based on the deep knowledge of the law, accounting standards and legal regulations.

Precise definition of judgement.

I cannot make any concessions, because I am obliged to give my opinion. Agreeing to the mistakes which are above the materiality level is not allowed, and it must be reported.

Sometimes clients introduce very powerful and convincing arguments, which complement the initial statement, so the judgement of the auditor changes.

Using the influence to make the client agree with my position: How the client cannot agree? It is my obligation to introduce my judgement.

Results according to Likert scale: Highest mean has problem solving tactic.

**Respondent 5 (main auditor at Russian Company, Voronezh):**

Everything is getting much easier in case of voluntary (non-obligatory audit), when the manager of the client company wishes to control some specific aspects of the company's accounting policy, taxes or other issues. In this case, it is even beneficial for the client to show all the documentation and disclose information, because auditor will be able to analyse the problem, correct the mistakes, and give recommendations.

Sometimes, during the audit, negotiation becomes easier, relationship friendlier, and even if initially the client company refused to give information, after some communication period, the information was disclosed and given to the auditor.

1<sup>st</sup> Part: Auditor's ability to woo the client. Previously composed exact agenda, be prepared for all possible results and outcomes of negotiation.

Making personal contact with a client; informal negotiation; convincing client in auditor's proficiency.

Compromise is good, but first of all we try to prove our correctness. After that, you listen to the client's point of view, try to understand the position of the client, get a proper understanding of client's arguments. After that, you start cooperating with the client, discussing together the problems, combining points of view and developing common solution. Sometimes, however, when the client is not willing to accept any other positions or make any concessions, auditor may start contending tactics. Only when auditor starts to contend, clients can make some concessions and then parties can find a compromise.

If there is still a conflict, which was not resolved during the negotiation, the final report of the auditor contains the notes, that the audit could have not been conducted properly due to the

undisclosed information. This report is then sent to the head office in Moscow, after “internal discussion” the positive conclusion can be written into the report. Unfortunately it is still common in Russia.

Results according to Likert scale: Highest mean has problem solving tactic.

**Respondent 6. (Managing Director at Audit Company 1, Voronezh):**

If the result of the initial audit control has been obtained, and it is clear that the financial statement is over- or understated, for auditor it is not important how big this distortion is, also the nature of such distortion is not relevant. The objective of Russian audit is to protect the rights of the stockholders and to assure that they receive their shares according to the net revenue of the company. Russian audit has to verify the accuracy of the financial report, to secure the correct yields of shares. That is why any kind of deviations in the financial statement is not tolerated from auditor's point of view. It is not relevant, whether the financial statement is over or understated, Russian auditors have to deal with all types of mismatches in the accounting reports.

1<sup>st</sup> Part: Knowing violation of the financial reporting.

Correct argumentation

Mutual correct understanding of the question.

Results according to Likert scale: Highest mean has problem solving tactic.

**Respondent 7 (Managing Director at Audit Company 2, Voronezh):**

Russian audit is rather underpaid when compared to Western countries where audit is much more appreciated by the companies and has higher importance. The experience of Russian auditors and their status is undervalued. Russian audit companies are forced to diversify their services. They deal not only with audit activities, they also have to teach young companies to carry out accounting, to deal with consulting and other activities related to the financial problems.

At the initial stage of the audit controlling, no discrepancies are assumed. Auditors talk about distortions in the financial statement only if they have been confirmed.

1<sup>st</sup> Part: During the audit process, after initial negotiation and the first examination of the client's financial statements, the hostile takeover of the audit company took place and the management of the audit company changed. The auditor who was controlling the client's financial statement was asked to terminate her activity and to give the project to another auditor.

The audit company's management team has changed and it was beneficial for the new director not to show the mismatches in the client's financial statement, due to the corruption and illegal contracts. No internal conflict has arisen.

Competence in understanding client's activities.

Personal Magnetism.

When the financial statements have been already distorted, there can be no compromises, but when communicating with client's company accountant in order to get and disclose some information, there should be compromises and concessions.

Results according to Likert scale: Highest mean has contending tactic.

**Respondent 8. (Auditor at Audit Company 2, Voronezh)**

Results according to Likert scale: Highest mean has agenda expanding tactic.

**Respondent 9. (Auditor at Audit Company 2, Voronezh)**

1<sup>st</sup> Part: Professional competence of the parties.

Results according to Likert scale: Highest mean has agenda expanding tactic.



### **Appendix 3. Abstract (in German)**

Die vorliegende Masterarbeit stellt unter Forschung die erste Wahl der Strategie der russischen Wirtschaftsprüfer, wenn der Geschäftsbericht des Kunden sich von der tatsächlichen finanziellen Lage der Gesellschaft abweicht und die weiteren Informationen erforderlich sind. Die Besonderheiten des Konfliktmanagements in den russischen Wirtschaftsprüfungsgesellschaften, die Unterschiede zwischen westlichen und russischen Audit-Verhandlungen und die Strategien die von russischen Unterhändler in der Anfangsphase der Prüfung bevorzugt werden, werden in der aktuellen Masterarbeit näher betrachtet. Der Gegenstand für die Analyse war die Auswirkung der Anfangsbedingungen und Wahrnehmung der Kontextbedingungen auf die Wahl der spezifischen Taktiken und Strategien unter den russischen Wirtschaftsprüfer.

Fünf Strategien, die entsprechend in Integrativen- (Erweiterung der Agenda, Problemlösungsstrategie) und Verteilungsstrategien (Offensiv-, Defensiv- und Kompromiss-Strategien) gruppiert werden können, wurden im Rahmen der Studie analysiert. Der Großteil der bisherigen Studien zu Wirtschaftsprüfer wurde in Westeuropa und Nordamerika durchgeführt und es wurde bestätigt, dass die Wirtschaftsprüfer am Beginn des Verhandlungsprozesses die integrativen Strategien bevorzugen. Die aus den neun Tiefeninterviews und der quantitativen Auswertung erhaltenen Ergebnisse bestätigten die Annahme, dass die russischen Wirtschaftsprüfer unabhängig von den Umständen ebenfalls die integrativen Strategien beim Eintritt in die Verhandlung bevorzugen.

Trotz bestehender Probleme mit der Korruption und den grauen Markt, verändert sich das russische Audit – es wird unabhängiger und stellt sich auf Westeuropäische Wirtschaftsprüfungsmethoden um. Informelle Praktiken und Korruption sind in dem russischen Geschäftsumfeld immer noch deutlich zu erkennen, jedoch die werden eher als die Mittel für die Erreichung des Ziels in den Situationen wo die formalen Regeln und Strukturen unvollkommen funktionieren angenommen. Die russischen Wirtschaftsprüfer sind gezwungen unter unbeständigen und instabilen Marktbedingungen zu wirken aufgrund der kurzen Geschichte und Unerfahrenheit des unabhängigen russischen Buchhaltungssystems. Die kräftigen Verhaltensänderungen der russischen Wirtschaftsprüfer können jedoch bemerkt werden und die Tatsache, dass die russischen Wirtschaftsprüfer für die weiteren Veränderungen vorbereitet sind, wird bestätigt.

## Appendix 4. Curriculum Vitae

### SUMMARY OF QUALIFICATION

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- Academic and practical knowledge of international business administration and marketing, as well as a good knowledge of specifics of communication in the international environment.
- Strong organization, diplomatic and time management skills.
- Excellent interpersonal skills as well as communication skills in English, German, Russian, Estonian and French.

### EDUCATION

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- 10/2011- Present     University of Vienna, Faculty of Business, Economics and Statistics,  
Master in International Business Administration, Main field of study: International Marketing  
Austria.
- 09/2008-06/2011     University of Tartu, Faculty of Economics and Business Administration,  
Bachelor of Arts in Social Sciences, Main field of study: Economics and Business Administration,  
Estonia.
- 09/2009-01/2010     University of Mannheim, Faculty of Business Administration, Erasmus student exchange program,  
Germany.

### WORK AND PROJECT EXPERIENCE

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- 03/2014 – 05/2014     Market Analyst at **Interconnection Consulting**, Vienna, Austria  
Market research in B2B sector, Data quantitative and qualitative analysis; Communication with  
existing and potential clients of the company; Active participation in the sales activities of the  
company.
- 09/2013 – 02/2014     Internship as Junior Market Analyst at **Interconnection Consulting**, Vienna, Austria
- 06/2011 – 08/2013     Personal Assistant to CEO at **HJK Travel**, Austria/ Estonia
- 10/2011- 06/2012     International marketing research project for **Philips Speech Processing**, University of Vienna,  
Austria  
Market research; Data collection and statistical multivariate analysis; Market segmentation.  
Provision of managerial recommendations for improving brand image and brand awareness of  
Philips dictation devices; Work with international team; Final report was well appreciated by the  
firm representatives.
- 07/2010-08/2010     Internship at **ThyssenKrupp Fördertechnik**, St.Ingbert, Germany. Departments: Purchasing and  
Logistics

### LANGUAGE SKILLS

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Mother tongue: Estonian;  
Fluent: Russian, English, German;  
Beginner: French.

### COMPUTER SKILLS

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Advanced: Windows XP, Vista, 7, 8;  
Advanced: MS Office (Excel, Word, PowerPoint, Outlook);  
Advanced: SPSS (Statistical Package for the Social Sciences);  
Advanced: AG-V.I.P (CRM Program)  
Beginner to Intermediate: Adobe Photoshop.

### OTHER SKILLS AND ACTIVITIES

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- 2009- Present     Member of Erasmus Student Network.
- 2005-2010     Member of Estonian Debating Society.
- 1997-2007     Kohtla-Järve Art and Music School. Piano education.

### INTERESTS, HOBBIES

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Reading; Playing piano;  
Sports: boxing, squash, swimming.