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

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Abstract

Audit standards require that auditors relying on a specialist do so to the extent they believe the specialist is competent. In assessing competence, auditors encounter cues diagnostic of the specialist's social status but less so of competence. In an experiment, we manipulate specialist status and find that auditors mistake status for competence unless they are prompted to separate the constructs, which could cause overreliance on high-status specialists. Further, auditors assess high-status specialists as more influential and—when the specialist disagrees with the client—rely more on high-status specialists because of their influence. Thus, high-status specialists can increase auditors' willingness to challenge the client. Contrary to predictions, auditors do not rely more on high-status specialists when the specialist agrees with the client but performs low-quality work. A second experiment demonstrates a backlash effect: auditors find high- (versus moderate-) status specialists *less* credible when their work quality is poor.

Keywords: Status, Auditing Complex Estimates, Specialists, Advice

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

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

I. INTRODUCTION

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

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

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

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

We draw on Status Characteristics Theory (Wagner and Berger 1997; Miles and Clenney 2010) to guide our examination. This theory proposes that people use others' status to develop expectations about their attributes and possible actions. Specifically, people use *status characteristics* such as race, gender, and occupation—which are broadly associated with status in society—and other, more direct indicators of status, such as assertive or dominant behavior and ties to exclusive schools, clubs, activities, companies, or charities, to develop these expectations (D'Aveni 1990; Jensen and Roy 2008). Because people often benefit from associating with an individual possessing status characteristics, they give high-status individuals influence and the benefit of the doubt when assessing other positive traits, including competence (Leary, Jongman, and Diebels 2014; Correl and Ridgeway 2003). Based on these ideas, we predict that auditors will view high-status specialists as more *competent* and *influential* than moderate-status specialists.

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

likely to increase auditors' agreement with the client for similar reasons, allowing auditors to overlook the poor quality of the specialist's work.

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

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

expectations, however, we do not find that auditors rely more on weakly justified *agreeing* opinions from high-status specialists. A follow-up experiment provides evidence that high-status specialists' credibility is undermined when they provide poor quality work, i.e., when it becomes evident that high status is not a valid cue of credibility – a backlash effect.

Supplemental analyses to our main experiment reveal that auditors do not rely on their own competence assessments in the way that standards suggest. When the specialist agrees with the client and provides strong justification, we find that high status increases auditors' assessments of specialist *competence*, which leads auditors to assess *lower, more client-friendly* discount rates. However, when the specialist disagrees with the client, we find that high status increases assessments of specialist *influence*, resulting in auditor assessments of *higher, less client friendly* discount rates. Ratings of specialist competence are not associated with auditor judgments when the specialist disagrees with the client. That is, auditors appear to rely on their high specialist *competence* assessments to justify accepting a client's aggressive estimate, but they rely on high specialist *influence* assessments to justify challenging the estimate.

Finally, our main experiment includes a within-participants component that tests whether auditors are aware of how they use specialist status cues. We find that auditors are aware that they use status to determine their reliance on the specialist, especially when the specialist disagrees with the client, but are unaware that they use status to assess competence. As the quote on the first page suggests, and status influences auditors' judgments in ways that they themselves do not fully grasp. While auditors have imperfect insight into their use of status cues, they are aware that they base their reliance on characteristics other than competence.

This study contributes theory and evidence about how specialist status affects auditor reliance on specialists. We find that high specialist status increases the specialist's perceived

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

Further, auditors' reliance on cues other than technical competence is potentially inconsistent with auditing standards, which direct auditors to evaluate specialist work based on the evaluation of the specialist's knowledge, skill, and ability (IAASB 2018; PCAOB 2018). For example, auditors may exercise less care evaluating estimates when competence assessments are inflated by high-status cues, consistent with claims that auditors fail to accurately evaluate specialist competence specifically on the task at hand (IAASB 2013; PCAOB 2018). Our findings suggest that standards or firm policies that increase auditors' awareness of status—e.g., by supplementing competence assessments with assessments that distinguish status cues from those more predictive of task competence—may constrain inflated competence assessments. In sum, despite the guidance in professional standards, auditors appear to base their reliance on specialist input on characteristics other than competence. Indeed, auditors seem aware that they do so, suggesting the need to reconcile the guidance in standards with actual audit practice.

II. THEORY AND HYPOTHESIS DEVELOPMENT

Specialist Use in Auditing

Specialists are commonly used in audits of complex estimates and related accounts. For example, a PCAOB (2015a) review of 50 large audit engagements finds that 90% used specialists and nearly all specialist activity related to estimates. Similarly, Cannon and Bedard (2017) find

that 85% of a sample of Big Four engagements used specialists for the audit of fair value estimates. Because auditors struggle to maintain the knowledge and skepticism necessary to audit complex estimates, the use of independent experts can improve this audit area (Griffith, Hammersley, and Kadous 2015). Auditors also engage specialists for other complex issues such as interpreting contracts, evaluating certain assets such as mineral or fossil fuel reserves, and estimating useful lives of assets (PCAOB 2018).

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

To examine how auditors implement the requirement to evaluate specialist competence, we requested open-ended responses to several questions about this process from seven auditors with ranks ranging from senior staff through partner across each of the Big Four firms in the Netherlands (see Appendix A for questions and a summary of responses received).[2] While specialists are vetted at the firm level before they are engaged, auditors indicate that they also conduct engagement-specific competence assessments of specialists, consistent with standards. Responses indicate that specialist competence assessments are typically performed and

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

documented by audit staff or seniors, reviewed by a manager, and signed off by the engagement partner.

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

Status Characteristics Theory and Auditors' Assessments of the Specialist

We draw on Status Characteristics Theory (Wagner and Berger 1997; Miles and Clenney 2010) to develop predictions about how a specialist's status influences auditors' reliance on the specialist's work. Theory proposes that individuals respond differently to others based on the expectations they develop for the other person (Berger, Wagner, and Zelditch 2018). Building on this idea, Status Characteristics Theory argues that status is a primary basis upon which people differentiate expectations. Particularly, an individual's personal characteristics, such as education, gender, and occupation, are broadly associated with status in society. Other, more direct indicators of status, such as ties to elite social circles linked to exclusive schools, clubs, activities, companies, or charities, serve a similar role (D'Aveni 1990; Jensen and Roy 2008). Importantly, status

characteristics are context-dependent, i.e., characteristics leading to high status in auditing may differ from those leading to high status in athletics, artistic pursuits, or other professions.[3]

In the absence of evidence to the contrary, people assign high performance expectations to individuals with characteristics associated with high status. Thus, people often rely on highly visible symbols of success, such as others' shows of respect, to evaluate individuals' competence (Anderson and Kilduff 2009a; 2009b; Kilduff, Willer, and Anderson 2016). For example, when true competence for a task is unobservable, people may implicitly infer high competence from the fact that high-status individuals act with confidence or are less frequently second-guessed (D'Aveni 1990). In our setting, this theory implies that auditors view a high-status specialist as more competent than a specialist with lower status.

Theory offers two propositions that are relevant in examining when and how status may affect auditor judgment. First, status characteristics must be distinctive to affect task judgments (Wagner and Berger 1997; Leary et al. 2014). For example, having a degree from an elite university such as Harvard will affect auditors' evaluations of specialist competence if such a degree is uncommon among specialists, and thus stands out. However, if all specialists have Harvard degrees, the characteristic will not affect auditor judgment. In the audit setting, specialist status can vary widely (Bauer and Estep 2019), implying that status serves as a point of differentiation. Further, the fact that auditors explicitly review status information in assessing specialist competence suggests that specialist status characteristics will typically be salient to the auditor.

[3] For this reason, before our experimental examination we conduct an independent survey of professional auditors (n = 53) to elicit characteristics that auditors associate with high status and to disentangle these characteristics from other, more predictive cues of performance (e.g., competence). See Appendix B.

Second, if status characteristics are distinctive, then individuals will treat them as relevant to their task unless the characteristics are explicitly dissociated from the task, i.e., shown to be invalid (Wagner and Berger 1997). For example, a high-status individual could signal low effort or low interest in the task, or explicit instructions could indicate that a given set of status characteristics are irrelevant to the task. We expect it is unlikely in many situations that auditors would explicitly dissociate specialist status characteristics from the task. Standards inadvertently prompt auditors to attend to status characteristics in evaluating the specialist (e.g., a specialist's "standing among peers"), which likely makes status seem relevant to the task. Based on this reasoning, we predict that specialist status influences auditors' assessments of specialist competence.

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

We acknowledge that status is positively correlated with competence in some situations, and that this hypothesis may lack tension in such cases. However, drawing on our survey findings (see Appendix B) we conduct our experimental examination using status indicators that auditors are aware have minimal predictive value for competence. It is well-known that status indicators are not always positively associated with competence. For example, some scholars refer to status as the *unearned* dimension of social rank (see Washington and Zajac 2005) and implicate status in "creating the illusion of competence" (Pfeffer 1982, 10). In fact, high-status decision makers often underperform their moderate-status counterparts (Malmendier and Tate 2009). We further note the novelty of our hypothesis: while a few studies suggest that professionals use status as a signal of competence in evaluating others (D'Aveni 1990; Lester, Certo, Dalton, Dalton, and Cannella 2006; Bodalato, Donelson, and Ege 2014), these studies do not test this relationship. Instead, they rely

on theory or intuition to infer higher competence perceptions from the observed data, without directly measuring competence.[4] Thus, H1a is not without tension.

We also expect that auditors view higher status specialists as more influential. A consequence of the respect and admiration garnered by high status individuals is that they command influence over resource allocations, conflict resolution, group members' attention and decisions, etc. (Berger et al. 2018, Foulsham, Chen, Tracy, Henrich, and Kingstone 2010; Leary et al. 2014). That is, the respect and admiration given to high status individuals often translate into uncoerced compliance with and less frequent second-guessing of their preferences (D'Aveni 1990; Anderson et al. 2015). This effect is likely exaggerated in audit settings because common features of the setting, including auditor-specialist knowledge differences, accountability pressures, hierarchical teams, and frequent changes in team membership, make deference to status more commonplace (Bunderson 2003; Jensen and Roy 2008; Hong, Zhang, Gang, and Choi 2017; Greer, DeJong, Schouten, and Dannals 2018).

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

Specialist Status and Auditor Conclusions

We next develop hypotheses predicting that specialist status will affect auditors' use of specialist advice in situations involving a conflict between specialist-provided evidence and client assertions. Theory suggests that there are adaptive benefits to deferring to high-status individuals in many social and professional situations (Griskevicius et al. 2009; Knechel and Leiby 2016). Input from high-status specialists is likely to increase the justifiability of audit conclusions and to

[4] Anderson and Kilduff (2009b) provide somewhat more direct evidence, showing that indicators of dominant behavior (which are associated with high status) influence perceived competence. However, they do not test the larger status – competence relation.

reduce dissent via social influence effects. Thus, in settings involving potential conflict, we expect that auditors will be particularly sensitive to what they view to be cues of specialist competence and influence. We examine two settings of potential conflict: (1) the specialist disagrees with the client and provides strong justification (leading to H2), and (2) the specialist agrees with the client but provides weak justification (leading to H3). We discuss each setting separately after a description of our baseline setting with limited potential conflict.

Auditors are generally motivated to agree with the client (Austin, Hammersley, and Ricci 2020; Griffith, Kadous, and Young 2021). These motivations arise from a variety of sources, including pressures to meet deadlines and satisfy *ex post* reviews that demand consistency in documented audit conclusions (AICPA 2012), as well as financial and personal relationships (Johnstone, Warfield, and Sutton 2001). Given auditors' motivations, when specialists agree with the client's estimate, auditors are likely to conclude that the estimate is reasonable (e.g., Griffith et al. 2015; Kadous, Kennedy, and Peecher 2003). Accordingly, auditors are likely to strongly weight specialist agreement as a signal of the reasonableness of the client's estimate. We view specialists' *well justified agreement* with the client as a conceptual baseline in which specialist status should not meaningfully affect auditors' conclusions. That is, there is little potential conflict in this setting: the client's preference to report the estimate as-is, the auditor's preferences to agree with the client and to complete the engagement efficiently, and the specialist's well-justified agreement all point to the same conclusion.

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

disagreement can create difficulties for the engagement team (Missal 2008; Griffith 2018; 2020). Also, auditors are prone to motivated reasoning, and thus may readily accept specialist agreement but scrutinize disagreement (Kadous et al. 2003).

We expect that high specialist status can counteract this tendency. People are accustomed to high-status individuals sharing their opinions and thereby setting a tone that allows for disagreement with the status quo (Anderson and Berdahl 2002; Anderson et al. 2012). For example, Bodalato et al. (2014) find that firms have better financial reporting when financial experts on their audit committee have higher status than management, which they attribute to management deferring to high-status board members. We similarly reason that, since high-status specialists are viewed as more competent and influential, deference to the specialist's opinion is less controversial. Consistent with this, in a meta-analysis, Greer et al. (2018) find that relying on status cues reduces conflict when team members are uncertain about their role or how their judgments should align with those of others. Thus, we expect that as specialist status increases, their disagreeing opinion is less likely to produce conflict and more likely to command deference from others, including the client, members of the engagement team, and audit firm personnel who may consult on the issue. As a result, auditors receiving advice from a high-status specialist are likely to deem disagreement with the client both as more accurate and more socially acceptable, which can ease the negative implications for auditors who stand up to the client. This leads to our second hypothesis:

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

While auditors may not be able to accurately evaluate aspects of the specialist's work, they can and – according to ISA 620 (IAASB 2018) – should assess the *justifiability* of a specialist report. In doing so, they may confront situations of *well justified agreement* or *poorly justified*

agreement with the client's estimate. Specialist agreement with the client is often not problematic if the specialist provides strong justification for their agreement—a situation reflecting our conceptual baseline. However, specialists do not always provide strong justification (IAASB 2013; Griffith et al. 2015; Griffith 2018; Knechel and Leiby 2016), and this can create a situation of potential conflict. Prior research suggests that auditors routinely assess the justifications provided by other auditors and by management (Koonce, Anderson, and Marchant 1995; Tan and Shankar 2010; Kadous, Leiby, and Peecher 2013). Auditors associate less strongly justified judgment processes with poorer decision outcomes (Kennedy, Kleinmuntz, and Peecher 1997; Bell, Peecher, and Solomon 2005). These pressures for justifiability suggest that auditors will be sensitive to differences in the quality of specialists' justifications.

That said, as above, deferring to high-status specialists can decrease the conflict created by poorly justified agreement. Since auditors view high-status specialists as highly competent and influential, these perceptions may allow them to dismiss deficiencies in specialists' justification quality, giving the specialist the benefit of the doubt. Granted, auditors can only rationalize like this within the bounds of reason (Kadous et al. 2003), thus specialist's justification must be strong enough that relying on it would not appear to be demonstrably unreasonable. We expect that auditors motivated to accept the client's estimate will be able to rationalize that the justification is good enough, even if it is weak, when it comes from a high-status specialist. This reasoning leads to our third hypothesis:

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

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

Experimental Method

Design and Participants

We tested our hypotheses using a 2 (*Specialist Status*: high, moderate) X 3 (*Specialist Input*: strongly justified agreement, weakly justified agreement, strongly justified disagreement) between-participants experiment.[5] The strongly justified agreement conditions serve as baseline (control) conditions in which there is little reason to expect an effect of status, because there is minimal conflict in that all parties (auditor, client, and specialist) likely support the client's estimates. The experiment includes a second stage employing a within-participants design to test the extent to which auditors are aware of their responses to status and competence cues.

Auditors (n = 170, mean experience = 8.2 years) from four firms (two Big 4 and two non-Big 4) in the Netherlands were randomly assigned to a condition in the first stage of the experiment. We gathered the data during seven firm-sponsored training sessions. The sample comprises 20 partners (mean experience = 22.6 years), 16 senior managers (mean experience = 14.3 years), 48 managers (mean experience = 7.0 years), 72 seniors (mean experience = 4.4 years), and 9 audit staff (mean experience = 2.9 years). All participants report experience having worked with specialists and 85% work at Big Four firms.[6]

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

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

Experimental Task

Our experimental task has auditors evaluate the discount rate used by a client to estimate the fair value of a class of investment properties.[7] Auditors commonly seek specialist input on discount rates (Griffith 2020) due to the susceptibility of estimates to reporting opportunism (Dechow, Myers, and Shakespeare 2010). In the case, the client's preferred discount rate is more aggressive than the rates used by industry leaders, resulting in a higher asset value and larger recognized gain on asset value than would result from a more appropriate rate. We provide background on the investment properties, inputs into the discount rate, evidence collected, and industry benchmarks. The evidence pattern is ambiguous but suggests opportunistic reporting by management.[8]

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

Independent Variables

The experimental case provides information that is commonly consulted to understand the specialist's qualifications. It is presented as having been gleaned from a review of the specialist's

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

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

resume, LinkedIn profile, and discussion with a close colleague who has worked with the specialist. Recall that practitioner responses to our questions on specialist evaluation suggest these as common sources for assessing specialist competence (see Appendix A). To manipulate *Specialist Status,* we vary the description of the specialist using insights from a separate survey of experienced professionals that we describe in Appendix B. The survey presents 13 characteristics spanning categories that prior literature finds are diagnostic of status: (1) social connections outside work (D'Aveni 1990), (2) social connections at work (Bunderson 2003), (3) interpersonal behaviors (Snyder, Tanke, and Berscheid 1977), and (4) qualifications or work history (Berger and Conner 1969). Auditors assess how diagnostic each characteristic is of the specialist's degree of technical knowledge (competence), respect from others (status), and influence.

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

For *Specialist Input* (see Appendix D), all participants receive a brief memo describing the work performed by the specialist and the specialist's opinion about the reasonable range of discount rates. In all conditions, the specialist concludes that the client's valuation model is mathematically valid. In the *Agree with Strong Justification* condition, the specialist reports performing an independent WACC analysis, explicitly quantifies a relatively small impact of intensifying competition on the discount rate assumption and concludes that the rate is within a reasonable range. In the *Disagree with Strong Justification* condition, the specialist reports performing an independent WACC analysis, explicitly quantifies a relatively large impact of intensifying competition on the discount rate assumption and concludes that the rate is not within the reasonable range (i.e., the rate should be higher). In the *Agree with Weak Justification* condition, the specialist concludes that the client's rate is reasonable, but does not report an independent WACC analysis. Also, the specialist notes two significant factors about the external environment but does not quantify the impact of either factor. First, the specialist notes that the client faces intensifying competition. Second, the specialist notes that the client's valuation model differs from models used by other firms and includes some *ad hoc* adjustments, which the specialist states may be justified but provides no explanation.

Dependent Variables

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

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

Within-Participants Design

Our experiment has a second stage that uses a within-participants design to test (1) whether auditors differentiate between cues of status and cues of competence and (2) whether auditors are aware of how they use status to evaluate specialists and weight their input. After participants assess the primary dependent variables, we randomly assign them to receive one of three pieces of new information about the specialist. The information is either a diagnostic indicator of task *competence* or it is *status* information that is less diagnostic of competence. In the *Competence Cue* condition, the specialist is a Register Valuator or a Certified European Financial Analyst.[9] In the *Status Cue* condition, the specialist plays tennis with senior partners at the firm.

Results

Manipulation Checks

To examine the effectiveness of our *Specialist Input* manipulation*,* we ask auditors to assess both the quality of the specialist's report and the extent to which the report constitutes persuasive evidence on 11-point Likert scales (anchored by 0 = "Very low"/"Not at all" and 10 = "Very high"/"Very much"). Auditors' assessments of both quality and persuasiveness are higher

[9] We include two *competence* conditions because discussion with practitioners suggested that multiple certifications could be diagnostic of specialist competence for the audit issue in our case. Moreover, auditors may hold varying beliefs about how diagnostic a given certification is. Thus, including two different certifications provides a more robust test of theory. *Register Valuator* is a Dutch certification specifically for financial valuation, requiring completion of a specialized post-graduate curriculum, exam passage, and at least five years of experience in a firm recognized to be a source of valuation expertise. *Certified European Financial Analyst* is similar to the U.S. Chartered Financial Analyst certification, requiring post-graduate education and exam passage. Participants do not systematically differentiate between the two certifications; thus, we combine them into one condition for expositional and analytical simplicity.

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

Descriptive Statistics

We report descriptive statistics for *Most Reasonable Rate* and *Lowest Reasonable Rate* in Table 2 and depict the cell means in Figure 1, Panel B. In practice, auditors evaluate the client's discount rate by developing a range of reasonable values and testing whether the client's discount rate falls within the range. In the experiment, 71% of auditors assessed the client's discount rate outside this range, with more doing so when the specialist disagrees versus agrees with the client's rate (95% vs. 59%, Fisher's Exact $p < 0.01$). Consistent with this, Figure 1 depicts assessments of the *Most Reasonable Rate, Lowest Reasonable Rate,* and *Highest Reasonable Rate,* and assessments appear higher when the specialist disagrees with the client.[11] Importantly, the mean *Lowest Reasonable Rate* is significantly higher than the client's preference of 4.7% in all conditions (untabulated), suggesting that auditors are likely to challenge the client's rate in all conditions. This highlights the importance of the *Most Reasonable Rate* and *Lowest Reasonable Rate,* which reflect how willing auditors would be to accept or challenge the client's rate.

[10] All reported p-values are two-tailed except when noted otherwise.

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

Hypothesis Tests

As noted earlier, our sample is diverse in terms of rank and experience. To reduce noise in our hypothesis tests, we control for experience with an indicator that splits our sample based on rank. The less experienced sample includes seniors and staff (n = 87) and the more experienced sample is made up of managers, senior managers, and partners (n = 80).[12] Because we do not hypothesize any experience effects, we report all hypothesis tests for the full sample. We discuss experience effects in supplemental analyses where experience effects are significant.

Specialist status and assessed competence (H1a). H1a predicts that auditors will assess high-status specialists as more competent than moderate-status specialists. Table 1 reports descriptive statistics related to competence and influence assessments. We report inferential statistics for H1a and H1b here but do not tabulate them. To test H1a, we estimate a contrast with weights of -1 for the three moderate-status conditions and +1 for the three high-status conditions. This contrast is significantly greater than zero ($t(158) = 2.41$, $p = 0.01$, one-tailed), supporting H1a. High specialist status is associated with higher assessed specialist competence.

Specialist status and assessed influence (H1b). H1b predicts that auditors will assess high-status specialists as more influential than moderate-status specialists. To test H1b, we estimate a contrast with weights of -1 for the three moderate-status conditions and +1 for the three high-status conditions. The contrast is significantly greater than zero ($t(158) = 5.38$, $p < 0.01$, one-tailed), supporting H1b. High specialist status is associated with higher assessed specialist influence.

Specialist status and disagreement with the client (H2). We use auditors' assessments of (1) the *Most Reasonable Rate* and (2) the *Lowest Reasonable Rate* to test H2 and H3. Lower

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

discount rates indicate more aggressive, client-friendly conclusions, and hence higher levels of agreement with the client. Table 2, Panel A reports descriptive statistics for these dependent measures. Table 3 reports inferential statistics, and Figure 1 plots expected (Panel A) and observed (Panel B) cell means for H2 and H3. Because the *Strongly Justified Agreement* conditions are our baseline for testing H2 and H3, we first confirm that there is no difference between high and moderate status in these conditions for either the *Most Reasonable Rate* ($p = 0.64$) or the *Lowest Reasonable Rate* ($p = 0.97$).

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

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

Considering the *Lowest Reasonable Rate,* we find that the simple effect of *Specialist Status* given *Strongly Justified Disagreement* is significant ($t(151) = 2.20$, $p = 0.02$, one-tailed), as is the

difference-in-differences test ($t(151) = 1.76$, $p = 0.04$, one-tailed). We again observe evidence of greater willingness to propose adjustments to the discount rate when receiving disagreeing advice from a high- versus moderate-status specialist. We conclude that the results support H2.

Specialist status and weakly justified agreement with the client (H3). H3 predicts that auditors will be more influenced by weakly justified agreement when specialist status is high versus moderate. As shown in Table 3, Panel A and consistent with our tests of H2, we use two contrasts to test this hypothesis: (1) the simple effect of *Specialist Status*, given *Weakly Justified Agreement*, and (2) the difference-in-differences test of the effect of *Specialist Status* in the *Strongly Justified Agreement* versus the *Weakly Justified Agreement* condition. In our first test employing the *Most Reasonable Rate*, we find that auditors exposed to weakly justified agreement do not rely more on a *High-Status* specialist than a *Moderate-Status* specialist. Instead, they appear to rely more on the *Moderate-Status* specialist.[13] Moreover, the difference-in-differences test suggests that the difference between *High-Status* and *Moderate-Status* condition auditors is no greater for *Weakly Justified Agreement* than for *Strongly Justified Agreement* ($p = 0.11$, two-tailed).

Considering the *Lowest Reasonable Rate,* we find no difference in auditors' judgments when they receive *Weakly Justified Agreement* from a *High-* versus *Moderate-Status* specialist ($p = 0.50$); neither is there a difference in the effect of *Specialist Status* between the *Strongly Justified Agreement* and *Weakly Justified Agreement* conditions ($p = 0.48$).[14] We conclude that H3 is not supported.

[13] We report two-tailed p-values for these tests because the results are directionally inconsistent with our predictions. We conduct an additional experiment to explore the underlying reason for these findings.

[14] Also, note there are no differences between strongly and weakly justified agreement in the *High-Status* or *Moderate-Status* conditions on either dependent measure, suggesting auditors did not differentiate between strong and weak justification for agreeing opinions.

A possible explanation for the lack of support for H3 is that the weakly justified report caused auditors to reconsider whether status is a valid signal of the specialist's credibility, dissociating status from the task. We ask auditors to evaluate whether the specialist has the necessary qualifications for the task on an 11-point Likert scale, and the mean rating is above the scale midpoint in all conditions. However, as discussed, Status Characteristics Theory posits that status characteristics will not influence performance expectations when they are explicitly dissociated from the task (Wagner and Berger 1997). Similarly, prior literature suggests that while indicators of high status inflate perceptions of the specialist's credibility, these same indicators can even reduce the specialist's credibility when decision-makers learn that they are invalid (Sah, Moore, and MacCoun 2013). This could reduce the deference auditors give to the high-status specialist's opinion. We examine this possibility further in a second experiment, which we report later.

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

In this section, we examine how auditors' experience (rank of senior and lower versus rank of manager and higher) influences responses to specialist status. For H1a and H1b, untabulated results reveal no evidence of a *Status by Experience* interaction for *Competence* or *Influence,* respectively. Similarly, we find no evidence that experience affects our findings for H3.

By contrast, experience appears to affect how auditors respond to specialist disagreement (H2). As shown in Table 2, when auditors receive *Strongly Justified Disagreement*, *High Status* has a greater effect on less experienced auditors than on more experienced auditors for *Most Reasonable Rate* (Panel B: 6.05 minus 5.65 vs. 5.90 minus 5.87) and *Lowest Reasonable Rate (*Panel C: 5.60 minus 5.08 vs. 5.33 minus 5.34). Untabulated tests show that the difference is at least marginally significant for both the *Most Reasonable Rate* (0.40 vs. 0.03, $t(155) = 1.75$, p =

0.08, two-tailed) and the *Lowest Reasonable Rate* (0.52 vs. – 0.01, $t(151) = 2.24$, $p = 0.03$, two-tailed). This finding is intuitive, because less experienced auditors are likely to benefit more from having an influential ally to support them in challenging the client's estimate than are more experienced auditors. Because the less experienced group includes the auditors who typically perform both the estimates task (Griffith et al. 2015) and the evaluation of specialists in practice (as indicated by responses to our questionnaire described in Appendix A), our aggregated results potentially understate the influence of specialist status on auditor judgments.

Supplemental Analysis: The Different Roles of Specialist Competence and Influence

To examine how *Competence* and *Influence* assessments translate into auditors' assessments of the client's discount rate, we use Hayes' (2018) bootstrapping approach (PROCESS model 14) to test the indirect effect of *Specialist Status* on auditors' judgments of the *Most Reasonable Rate*.[15] We examine potential mediating paths through *Competence* and *Influence.*[16] We include *Agreement* (*Agree* vs. *Disagree*) as a moderator variable because this variable affects the interpretation of model coefficients. In the *Agree* conditions, a negative (positive) coefficient indicates moving towards (away from) the specialist. In the *Disagree* conditions, a negative (positive) coefficient indicates moving away from (towards) the specialist. We collapse *Strongly* and *Weakly Justified Agreement* into a single condition because we observe no significant effect of justification strength in our prior tests.

As shown in Figure 2, mediation results indicate that the *High Status* increases *Competence* ($t(165) = 2.17$, $p = 0.03$) and *Influence* ($t(165) = 5.05$, $p < 0.01$), but have opposite effects on

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

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

assessments of the *Most Reasonable Rate.* The rate judgment is negatively associated with *Competence* ($t(165) = 2.14$, $p = 0.03$) but positively associated with *Influence* ($t(165) = 1.97$, $p = 0.05$). Further, there is a significant *Agreement by Influence* interaction ($t(165) = 2.01$, $p = 0.05$) indicating that the positive effect of *Influence* occurs when the specialist disagrees with the client. In this case, there is a positive indirect effect of *Specialist Status* on the *Most Reasonable Rate* through *Influence,* suggesting that auditors are more willing to challenge the client when there is an influential ally to support them (0.01, 0.25).[17] There is no indirect effect through *Influence* when the specialist agrees with the client. The support of a high-status specialist can reduce conflict and its social costs, and our findings are consistent with the idea that auditors are social politicians and are thus pragmatic about when they challenge the client (e.g., Peecher 1996).

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

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

disagrees with the client. In sum, auditors appear to view inflated competence assessments as a basis for agreement, but not disagreement, with the client.

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

The second stage of our experiment allows us to more closely examine whether auditors distinguish status from competence and whether they are aware of how they use cues to specialist status. In this stage, participants receive additional information that the specialist either has a relevant certification (*Competence Cue*) or plays tennis with firm leaders (*Status Cue*). Our dependent measures are the signed change in assessed *Competence* and the signed change in *Most Reasonable Rate.* We estimate two 2 (*First Status Manipulation:* High, Moderate) X 2 (*Specialist Agreement:* Agreement, Disagreement) X 2 *(Second Status Manipulation:* Competence Cue, Status Cue) ANOVAs, one for each measure.[18]

Table 4 reports descriptive and inferential statistics. Figure 3 plots cell means. Our results suggest that auditors can distinguish competence from status when prompted. Further, auditors *are unaware* that they use specialist status to assess competence but *are aware* that they use status to determine their reliance on the specialist. For *Competence,* Table 4, Panel C reports a significant effect of the *Second Status Manipulation* in which auditors make large upward revisions to *Competence* when they see the *Competence Cue* but not when they see the *Status Cue (*$F_{1,151}$ = 34.87, $p < 0.01$).[19] That is, when auditors become aware of the status manipulation, their competence assessments are no longer affected by status, consistent with auditors being unaware of how status affects assessed competence in the first stage of the experiment. These findings

[18] We omitted the reasonable range question from the second stage of the experiment to keep task length reasonable. Thus, we cannot run this analysis for the *Lowest Reasonable Rate.*

[19] There is a marginally significant *First Status Manipulation by Agreement* interaction in which auditors who saw the high-status condition in the first stage assess *Competence* as higher when the specialist disagrees, as opposed to agrees.

further suggest that auditors believe that professional certifications are diagnostic of competence, but status indicators are not.

For *Most Reasonable Rate,* Table 4, Panel C also reports an effect of *Second Status Manipulation* ($F_{1,160}$ = 14.88, p < 0.01), though the effect is different from the effect on *Competence.* As depicted in Figure 3, Panel B, auditors revise the *Most Reasonable Rate* in a significantly less client-friendly manner when they view the *Status Cue* versus the *Competence Cue.* That is, when auditors become aware that the specialist has high status, they are more willing to disagree with the client than when they become aware that the specialist is highly competent.[20] Further, t-tests indicate that upwards revisions are greatest in the *Moderate Status first, Status Cue second, Disagree* condition (p = 0.05, untabulated), consistent with our other findings that high specialist status emboldens auditors to rely on input that disagrees with the client. Auditors use the status (i.e., tennis-playing) cue to determine their reliance on the specialist even though they believe the tennis-playing cue is not diagnostic of competence.

In sum, we find that auditors mistake status for competence, but, when prompted, they recognize that status characteristics similar to those we used in the first part of the study are not diagnostic of competence. Nonetheless, even when prompted, they are more willing to disagree with the client after receiving status cues. This suggests that auditors use status cues inconsistent with standards' prescription. Although auditors lack full insight into how status affects their judgments, our findings suggest they are aware that competence does not drive their reliance judgments. Instead, auditors base their reliance on the specialist's influence.

[20] We observe a significant *First Status Manipulation by Agreement* interaction in which auditors who saw the moderate status condition in the first stage are more willing to adjust when there is disagreement. This may reflect increased specialist credibility having a larger incremental effect in the moderate status condition, where auditors were less willing to disagree with the client in the first stage.

IV. EXPERIMENT 2 – DOES HIGH STATUS BACKFIRE WHEN SPECIALISTS PROVIDE POOR QUALITY WORK?

Our first experiment established that auditors view higher status specialists as more competent (H1a) and influential (H1b) than lower status specialists, and that auditors rely more on higher status specialists when the specialist disagrees with the client's estimate (H2). This latter effect is mediated by auditors' assessments of specialist influence. Although we also found that the auditors' assessments of specialist competence mediate between specialist status and auditors' discount rate judgments when the agreeing specialist's justification is strong (i.e., our control condition), we did not find support for status effects when the specialist agrees with the client but provides a weak justification for doing so (H3). We conduct a second experiment to further examine the lack of support for H3.

We argue that status cues can provoke a backlash when it becomes clear that the cues are invalid indicators of competence, consistent with theory that people will not rely on a status cue when it becomes dissociated from the task (Wagner and Berger 1997). To illustrate, consider research on how people interpret high confidence in others. High confidence increases a person's credibility in the eyes of others when judgment quality is unknown, but *decreases* credibility when others find out the person is highly confident but has low quality judgment (Tenny, MacCoun, Spellman, and Hastie 2007; 2008; Sah et al. 2013). Analogously, high status can increase a specialist's credibility when judgment quality is unknown but decrease it when judgment quality is easier to detect. In auditing, poor justifications are a signal of low-quality judgment processes (Bell et al. 2005). Thus, we expect that auditors who detect poor quality input from high-status specialists are likely to recognize that status is not a relevant signal of credibility, i.e., they will dissociate status cues from the task (Wagner and Berger 1997). Based on this reasoning, we predict

that weak justification is more likely to undermine the credibility of a high- versus moderate-status specialist.

Participants and Method

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

In stage 1, participants read an audit case in which all facts and information are identical to the *Weakly Justified Agreement* conditions in Experiment 1, except that the specialist's report is not immediately provided. We manipulate *Specialist Status* (High versus Moderate), provide the specialist's conclusion agreeing with the client's estimate without any justification, and collect initial judgments about the discount rate. In stage 2, we provide all participants with the specialist's report, which is the *Weakly Justified Agreement* specialist input from Experiment 1, making the weak justification salient to participants. Participants then re-assess the most appropriate discount rate and the reasonable range, evaluate the specialist's credibility (see next section) and other attributes of the specialist and the report, and provide demographic information.

Specialist Credibility Measure

Following Sah et al. (2013), we ask auditors to rate their agreement with five statements about the specialist: "The specialist is competent," "I trust the specialist," "I like the specialist," "I took the specialist's advice," and "The specialist is reliable." We average the five measures to construct the measure of *Credibility*.[21] We collect these measures only in stage 2, rather than in

[21] In a principal component analysis these five measures load onto a single factor explaining 64% of shared variance.

both stages, to prevent these measures from interfering with natural judgments and to avoid potential demand effects.

Results

Consistent with expectations, we find that *Credibility* is lower for high- versus moderate-status specialists (5.1 versus 5.9, $p = 0.04$). See Table 5. This supports our reasoning that poor report quality undermines the credibility of the high-status specialist, relative to the moderate-status specialist, as participants react to the revelation that high status is likely an invalid signal of credibility. We further note that the individual measures are each significantly higher in the moderate status condition, except for competence, which also did not differ in the weakly justified agreement conditions in Experiment 1. This suggests that dimensions of credibility other than competence drive auditors' responses in Experiment 2. For robustness, we corroborate that diminished credibility in the high- versus moderate-status condition translates into auditors rating the specialist's input as lower in both *Quality* (4.1 versus 5.2, $p = 0.05$) and *Persuasiveness* as audit evidence (4.5 versus 5.5, $p = 0.08$).

We also find that these lower credibility assessments in the high-status condition lead to higher discount rates. There is a marginally positive indirect effect of *Specialist Status* on the assessed *Most Reasonable Rate* via *Assessed Credibility.* That is, high status decreases specialist credibility when the specialist's justification is poor, and lower specialist credibility then leads to higher assessed discount rates. An untabulated mediation analysis using the PROCESS macro (model 4) supports this indirect effect at the 90% confidence level [0.01, 0.26].[22]

Evidence from Experiment 2 supports our contention that the lack of support for H3 in Experiment 1 is due to a backfiring effect: high-status specialists lose credibility when it becomes

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

evident that high status is not a valid cue of credibility.[23] In Status Characteristics Theory terms, the specialist's weak justification facilitates dissociation of the status characteristics from the task. Consistent with theory, our findings suggest that auditors form expectations of high input quality when they encounter high-status specialists, and they react negatively when these expectations are not met. These findings suggest an additional barrier to auditors' appropriate use of specialist feedback beyond those related to the disconnect between how auditors use status information and how standards require them to identified in Experiment 1.

V. CONCLUSIONS

We test whether specialist status affects auditors' reliance on specialist inputs in evaluating client estimates in situations with substantial conflict between available evidence and the client's assertions. Our tests employ status characteristics that auditors view as highly diagnostic of status but less diagnostic of competence. Consistent with expectations, we find that auditors assess specialist competence and influence as higher when the specialist has high (versus moderate) status. We further find that auditors rely more on strongly justified disagreement from a high- versus moderate-status specialist, and they assess higher, less opportunistic discount rates in this setting. We do not find that auditors rely more on weakly justified *agreeing* opinions from high-status specialists. A follow-up experiment demonstrates a backlash effect: when auditors realize that the high-status specialist is not highly competent, they move their judgments away from the specialist's advice.

[23] We corroborate these findings in an additional experiment in which we test another indicator that high status does not reflect high credibility: the relevance of the specialist's credentials to the audit issue. We test this in a 2 (*Specialist Status: High, Moderate*) x 2 (*Credential Relevant, Irrelevant*) between-participants design with 42 auditors. The relevant qualification is a Register Valuator certification, and the irrelevant qualification is a PhD in Electrical Engineering, which is impressive but not relevant to valuing investment properties. The results of this experiment mirror the results of Experiment 2. Auditors assess credibility as lower for an irrelevant, as opposed to relevant qualification, but only for the high social status specialist.

Our mediation results further show that input from high-status specialists emboldens auditors to challenge client estimates because of the high-status specialist's influence, rather than competence. Auditors value an influential ally whose presence can reduce conflict in standing up to clients. This finding highlights the complex social and organizational dynamics involved in the consultation, negotiation, and resolution of financial reporting decisions. It demonstrates that high specialist status can improve audit quality by encouraging auditors to take contrary information into account. The finding also suggests that acknowledging the importance of factors other than competence may have the benefit of encouraging auditors to push back on opportunistic estimates.

We also find that auditors sometimes mistake high specialist status for competence, and that these inflated competence assessments increase auditors' willingness to accept opportunistic client estimates when the specialist's report supports the client estimate. This indicates a potentially problematic result of status effects, though our finding that auditors "correct" their competence assessments when they become aware of the status characteristics is encouraging. Our findings suggest that standard setters or firms could incorporate into the task of assessing specialist competence a step in which auditors explicitly separate status cues from competence cues to avoid inflated competence assessments.

Overall, our findings reveal a disconnect in auditors' judgment processes: auditors *unintentionally* rely on specialist status to assess competence, but they appear to *intentionally* rely on specialist status, apparently because it indicates influence, in making judgments about client estimates. While we cannot conclude whether auditors assess specialist competence accurately, our findings indicate that they do not use specialist input consistently with how they assess specialist competence, as standards require. These findings highlight a need for reconsideration of the mandated process by which auditors incorporate specialist inputs into their judgments. For

example, standards or firm quality controls could direct auditors to evaluate cues of competence and cues of status, thus allowing auditors to explicitly separate the two evaluations.

Finally, we also find that high status backfires when a specialist provides poor quality work, undermining specialist credibility. It is noteworthy that this backlash effect is contrary to much prior literature on status, which generally finds that high-status individuals receive the benefit of the doubt when they perform poor quality work (Malmendier and Tate 2009). Future research could examine conditions in which auditors are willing to accept (and reject) poor-quality specialist work.

Our research is subject to limitations. Our manipulation of status includes multiple status characteristics that are designed to convey minimal information about the specialist's competence but are more informative about the specialists' status. We are unable to assess the separate effects of these characteristics on auditor judgment, and we do not examine whether attributes of the auditor, task, or setting affect how auditors respond to specific status characteristics. Our analyses highlight the role of a specialist's social influence in facilitating disagreement with the client, but we acknowledge that specialist status may be impactful in other settings. Future research can examine these issues, as well as whether and how status effects manifest in other audit settings, such as the review process or negotiation. In addition, future research could examine whether auditors' inflated competence assessments for high-status specialists inappropriately reduce their review of the specialist's work. Future research can also further disentangle the relative role of additional status characteristics not directly examined in the current study.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix B – Survey to Identify Social Status Attributes

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

Survey of Experienced Auditors

Participants and Method

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

The characteristics span four basic categories associated with social status and/or knowledge: (1) social connections outside work (D'Aveni 1990), (2) social connections at work (Bunderson 2003), (3) interpersonal behaviors (Snyder et al. 1977), and (4) qualifications or work history (Berger and Conner 1969). The characteristics related to *social connections outside work* include being a Rotary Club member, regularly playing tennis with senior partners, attending social events with politicians and businesspeople, and being on the board of directors of a national charity. *Social connections at work* include having a large network of friends at work and being sought for advice at work. *Interpersonal behaviors* include high self-confidence, being calm in difficult situations, and answering first when asked questions in a group situation. *Qualifications* include having a professional certification, having substantial work experience, and having been promoted early. We varied the certification and experience items across participants. We randomly varied certification across participants at three levels: Register Valuator, Certified European Financial Analyst, or Certified Actuary. Half of participants were told the other person had the same amount of experience as them, while the other half were told the specialist had five more years of experience.[24] Finally, on a between-participants basis, we vary whether the other person was female or male.[25]

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

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

Results

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

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

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

Appendix C – Specialist Status Manipulation

The Valuation Specialist

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

[[[MODERATE STATUS CONDITION]]]

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

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

[[[HIGH STATUS CONDITION]]]

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

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

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

Appendix D – Specialist Input Manipulation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

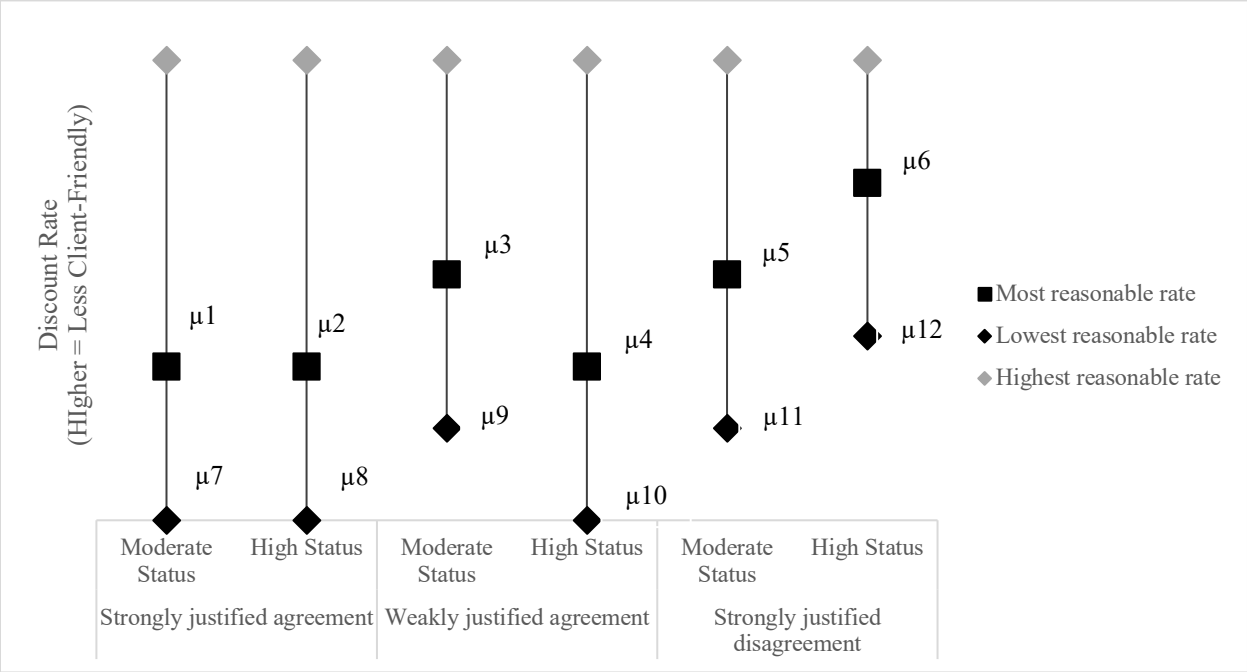
Finally, I evaluated the macroeconomic environment. Because CPI's retail lessees face greater competition from online retailers, the financial health of many of CPI's lessees may have worsened since the original lease signing date. Because CPI is not monitoring lessee default risk before lease renewal,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

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

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

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

Panel A: Predictions



Tests of H2: *Most Reasonable Rate*	μ6 > μ5; (μ6-μ5) > (μ2-μ1)
Tests of H2: *Lowest Reasonable Rate*	μ12 > μ11; (μ12 - μ11) > (μ8 - μ7)
Tests of H3: *Most Reasonable Rate*	μ4 > μ3; (μ4-μ3) > (μ2-μ1)
Tests of H3: *Lowest Reasonable Rate*	μ9 > μ10; (μ9 - μ10) > (μ8 - μ7)

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

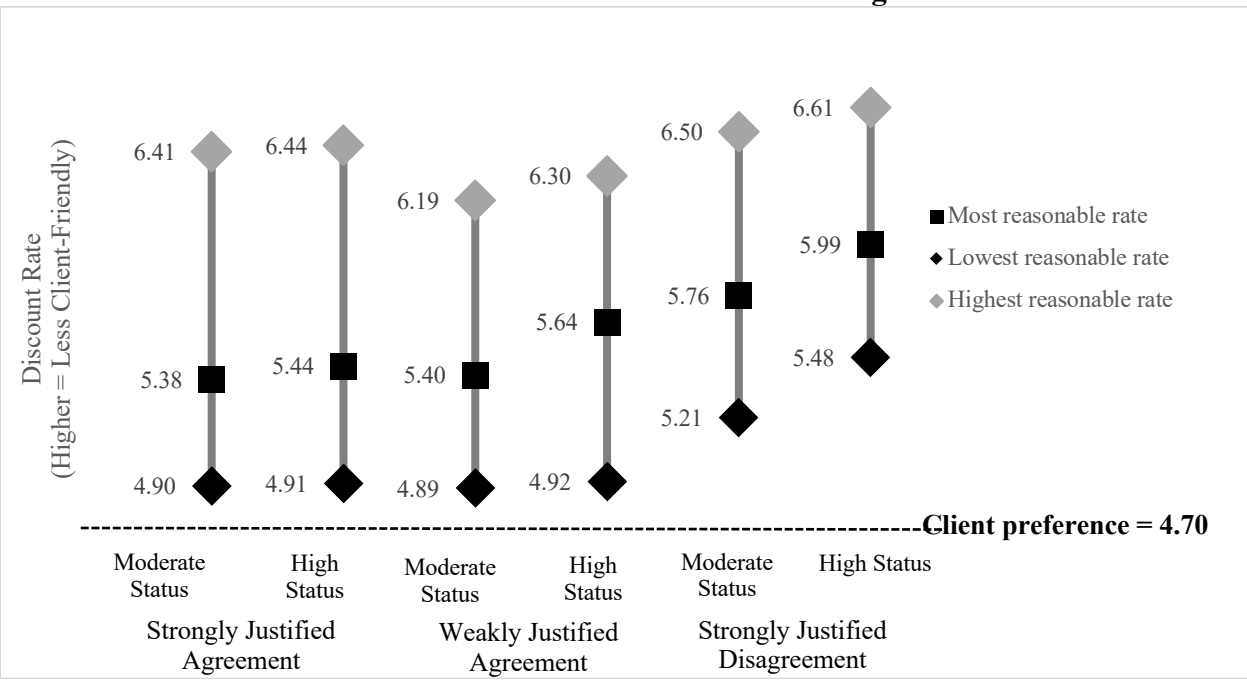


FIGURE 1 - Auditor Assessments of the Client's Discount Rate Estimate (cont.)

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

FIGURE 2
Indirect Effects of Specialist Status on Most Appropriate Rate

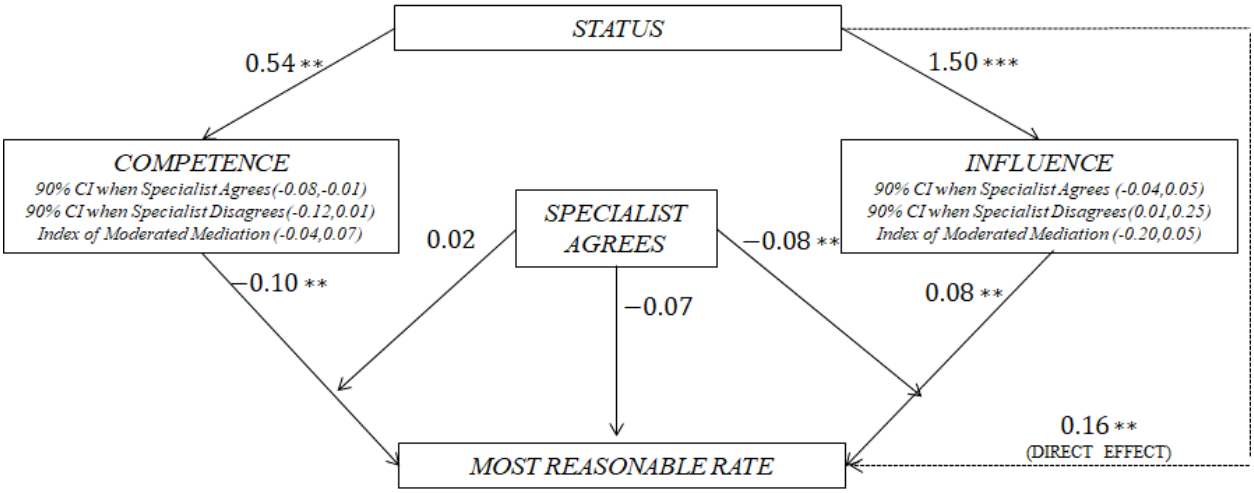


Figure 2 depicts the coefficients of the indirect effect of *Status* on *Most Reasonable Rate* via auditors' assessments of specialist *Competence* and *Influence.* Significance of coefficients is indicated with *** for $p < 0.01$, ** for $p < 0.05$, and * for $p < 0.10$. Confidence intervals are 90%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

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

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

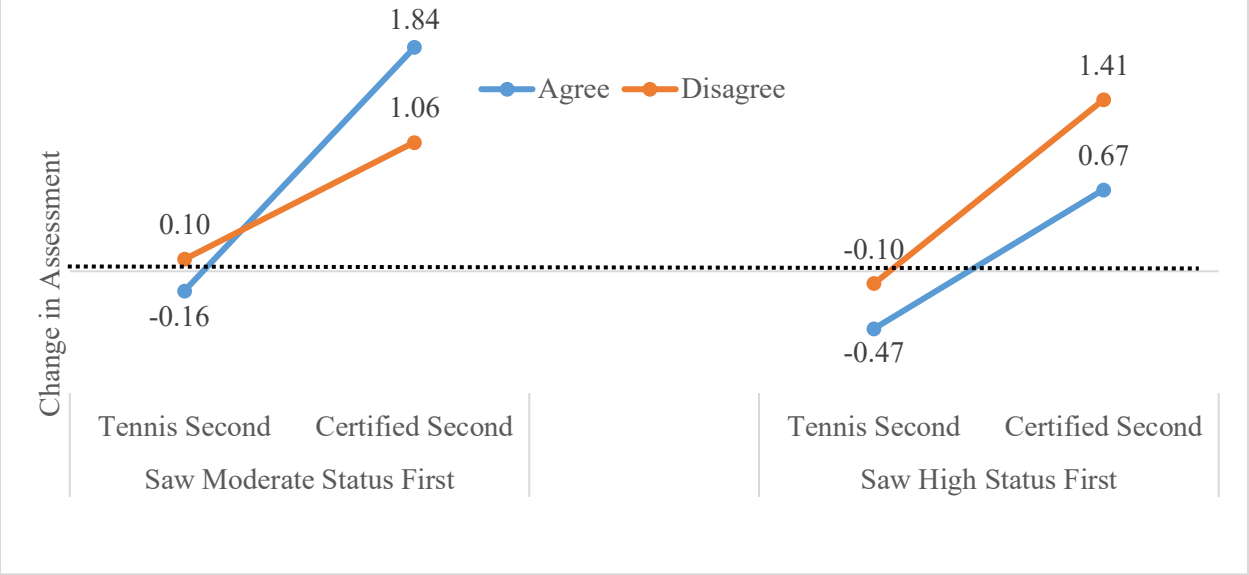
$$\text{MOST REASONABLE RATE} = \delta 3 + \beta 3\text{STATUS} + \beta 4\text{COMPETENCE} + \beta 5\text{INFLUENCE} + \beta 6\text{AGREEMENT} + \beta 7\text{COMPETENCE} * \text{AGREEMENT} + \beta 8\text{INFLUENCE} * \text{AGREEMENT} + \varepsilon \quad (3)$$

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

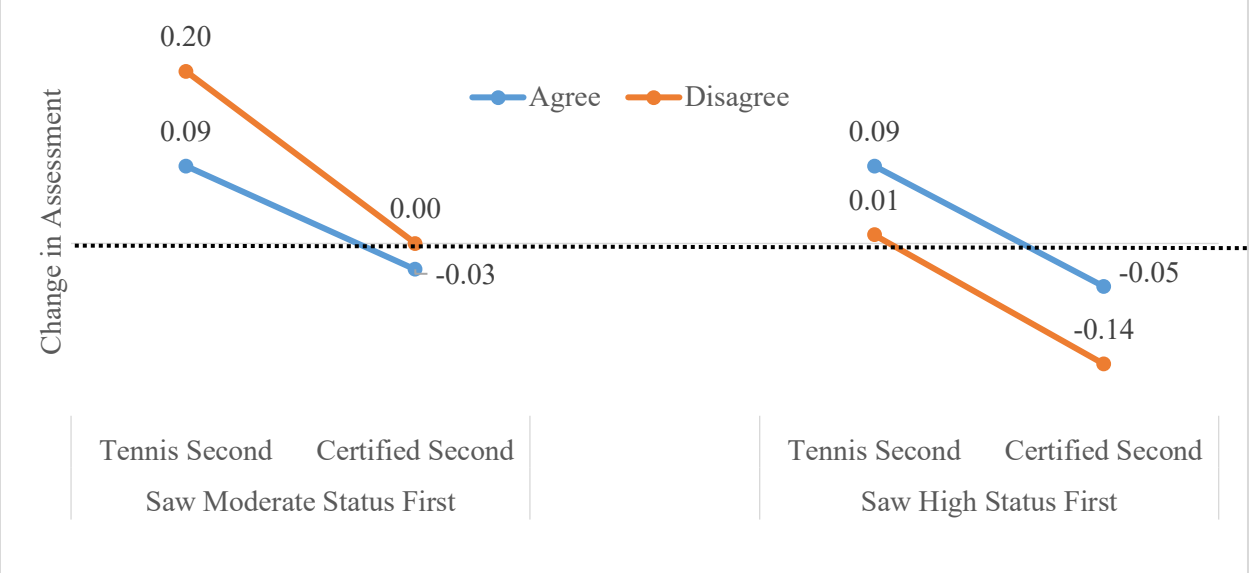
Higher discount values are less consistent with client preferences. In the *Agree* conditions, a negative (positive) coefficient indicates moving towards (away from) the specialist. In the *Disagree* conditions, a negative (positive) coefficient indicates moving away from (towards) the specialist. *Competence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

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

Panel A: Change in Auditors' Competence Assessments



Panel B: Change in Auditors' Most Appropriate Rate Assessments



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

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

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

	Competence		*Influence*	
Specialist Input	Moderate Status	High Status	Moderate Status	High Status
Strongly justified agreement	5.21 (2.08) N = 28	5.89 (1.43) N = 28	4.68 (1.98) N = 28	6.23 (2.09) N = 28
Poorly justified agreement	5.23 (1.05) N = 26	5.60 (1.74) N = 30	5.29 (1.90) N = 26	6.10 (1.56) N = 30
Strongly justified disagreement	6.07 (1.55) N = 27	6.75 (1.09) N = 31	5.52 (1.98) N = 27	7.34 (1.09) N = 31

This table provides descriptive statistics for auditors' assessments of specialist competence and influence. Competence and Influence on 11-point Likert scales with anchors 0 = "Not at all competent / influential" and 10 = "Very competent / influential." *Specialist Status* is manipulated as the specialist being on a charity board, in elite social circles, and self-confident (*High Status*), or not (*Moderate Status*). *Specialist Input* is manipulated as concluding the rate is reasonable but aggressive, providing strong rationale (*Strongly Justified Agreement*); reasonable but aggressive, providing weak rationale (*Weakly Justified Agreement*); or unreasonable, providing strong rationale (*Strongly Justified Disagreement*).

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

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

	Most Reasonable Rate		*Lowest Reasonable Rate*	
Specialist Input	Moderate Status	High Status	Moderate Status	High Status
Strongly justified agreement	5.38 (0.36) N = 28	5.44 (0.37) N = 28	4.94 (0.39) N = 25	4.91 (0.50) N = 28
Poorly justified agreement	5.39 (0.27) N = 26	5.65 (0.33) N = 29	4.88 (0.38) N = 26	4.93 (0.53) N = 27
Strongly justified Disagreement	5.76 (0.53) N = 27	5.99 (0.53) N = 29	5.21 (0.49) N = 27	5.48 (0.44) N = 30

Panel B: Means, (SDs), Cell Count for *Most Reasonable Rate* - Split by Experience

	Less Experienced		More Experienced	
Specialist Input	Moderate Status	High Status	Moderate Status	High Status
Strongly justified agreement	5.48 (0.44) N = 16	5.64 (0.30) N = 17	5.24 (0.13) N = 12	5.13 (0.19) N = 11
Poorly justified agreement	5.41 (0.31) N = 13	5.76 (0.42) N = 11	5.39 (0.23) N = 13	5.57 (0.25) N = 18
Strongly justified disagreement	5.65 (0.71) N = 13	6.05 (0.67) N = 17	5.87 (0.28) N = 14	5.90 (0.20) N = 12

Panel C: Means, (SDs), Cell Count for *Lowest Reasonable Rate* - Split by Experience

	Less Experienced		More Experienced	
Specialist Input	Moderate Status	High Status	Moderate Status	High Status
Strongly justified agreement	4.94 (0.50) N = 14	5.11 (0.35) N = 17	4.85 (0.17) N = 11	4.60 (0.56) N = 11
Poorly justified agreement	4.76 (0.43) N = 13	5.10 (0.53) N = 9	5.01 (0.29) N = 13	4.84 (0.53) N = 18
Strongly justified disagreement	5.08 (0.65) N =13	5.60 (0.52) N = 17	5.34 (0.21) N = 14	5.33 (0.25) N = 13

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

This table reports auditors' discount rate assessments (i.e., *Most Reasonable Rate* and *Lowest Reasonable Rate*). Panel A reports descriptive statistics for the full sample. Panels B and C report descriptive statistics partitioned by *Experience*. The *Less Experienced* group comprises seniors and staff auditors, while the *More Experienced* group comprises managers, senior managers, and partners. Higher values are less consistent with client preferences. *Specialist Status* is manipulated as the specialist being on a charity board, in elite social circles, and self-confident (*High Status*), or not (*Moderate Status*). *Specialist Input* is manipulated as concluding the rate is reasonable with strong rationale (*Strongly Justified Agreement*); reasonable with weak rationale (*Weakly Justified Agreement*); or unreasonable with strong rationale (*Strongly Justified Disagreement*).

TABLE 3 - Tests of Auditor Assessments of the Client's Discount Rate (Experiment 1)

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

Contrast	*t*	p
Hypothesis 2		
Most Reasonable Status | Disagreement	2.01	0.02
Most Reasonable Status | Disagreement vs. Status | Strong Agreement	1.26	0.11
Lowest Reasonable Status | Disagreement	2.20	0.02
Lowest Reasonable Status | Disagreement vs. Status | Strong Agreement	1.76	0.04
Hypothesis 3		
Most Reasonable Status | Weak Agreement	2.49	0.02
Most Reasonable Status | Weak Agreement vs. Status | Strong Agreement	1.61	0.06
Lowest Reasonable Status | Weak Agreement	0.68	0.50
Lowest Reasonable Status | Weak Agreement vs. Status | Strong Agreement	0.71	0.48

Panel B: One-Way ANOVAs for *Most Reasonable Rate* and *Lowest Reasonable Rate* (H2 & H3)

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

Table 3 reports inferential statistics for *Most Reasonable Rate* and *Lowest Reasonable Rate* (H2 and H3). Panel A reports planned contrasts using one-tailed p-values. Panel B reports the One-Way ANOVAs for each measure using two-tailed p-values. The ANOVA error terms in Panel B are used to compute test statistics in Panel A.

Table 4 – Within-Participants: Are Auditors Aware of How They Use Status Cues? (Experiment 1)

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

	Saw Moderate Status First		*Saw High Status First*	
Specialist Input	*Certified Second*	*Tennis Second*	*Certified Second*	*Tennis Second*
Agrees with Client	+ 1.84 (1.47) N = 38	- 0.16 (0.72) N = 16	+ 0.67 (1.33) N = 43	- 0.47 (0.74) N = 15
Disagrees with Client	+ 1.06 (1.71) N = 17	+ 0.10 (2.02) N = 10	+ 1.41 (1.28) N = 21	- 0.10 (1.29) N = 10

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

	Saw Moderate Status First		*Saw High Status First*	
Specialist Input	*Certified Second*	*Tennis Second*	*Certified Second*	*Tennis Second*
Agrees with Client	- 0.03 (0.17) N = 38	0.09 (0.26) N = 16	- 0.05 (0.27) N = 42	+ 0.09 (0.25) N = 15
Disagrees with Client	0.00 (0.14) N = 17	+ 0.20 (0.29) N = 10	- 0.14 (0.23) N = 21	+ 0.01 (0.03) N = 9

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

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

This Table reports descriptive statistics for the change in *Competence* (Panel A) and *Most Reasonable Rate (*Panel B) assessments in the within-participants part of experiment 1. Panel C reports inferential statistics, specifically the test statistics and p-values from a between-subjects ANOVA on each measure. The *Second Status Manipulation* informs auditors that the specialist either plays tennis with firm leaders (*Status Cue*) or has a valuation certification (*Competence Cue*). See Figure 3 for descriptions of other independent and dependent variables.

TABLE 5 - Auditor Assessments of Specialist Credibility when Specialist's Justification is Weak (Experiment 2)

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

This table depicts results for Experiment 2, which made the specialist's poor justification salient to auditors by presenting it after auditors were able to process the status manipulation. *Specialist Status* is manipulated as the specialist being on a charity board, in elite social circles, and self-confident (*High Status*), or not (*Moderate Status*). All measures are collected on Likert scales ranging from 0 to 10, with higher values indicating greater credibility, quality, and persuasiveness. *Credibility* is the average of five credibility measures: "The specialist is competent," "I trust the specialist," "I like the specialist," "I took the specialist's advice," and "The specialist is reliable."