

The Effect of Staff Auditor Reputation and Reputation Management
on Audit Quality Enhancing Actions

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Abstract

We report the results of two experiments that examine whether having a good professional reputation facilitates performing quality audit work. Auditors have a professional obligation to conduct quality audits. However, research has demonstrated that audit quality enhancing actions (e.g., speaking up about issues, making client inquiries, exhibiting skepticism) come with associated potential personal costs. Drawing upon the Theory of Reputation in Organizations as well as Social Presentation Theory, we predict that auditors perceive that the risks associated with these actions vary based on the perceived reputation of the actor (i.e., lower risks associated with engaging in these actions when the auditor has a positive reputation), and that these perceptions will influence their decisions to act. We provide evidence that, when faced with an anticipated budget overage, auditors anticipate greater benefits to actively managing the supervisor's expectations when the auditor has a more positive reputation with the supervisor, thus making that auditor less likely to engage in dysfunctional behavior to meet the budget. We also provide evidence that a positive reputation causes auditors to exhibit skeptical actions. Taken together, our experiments provide evidence that the quality of an auditor's work is influenced by their perceived reputation with their supervisor.

I. INTRODUCTION

Staff auditors often face situations in which they face competing goals and motivations, such as when skeptical action bothers clients (e.g., Bennett and Hatfield 2013) or speaking up about an audit issue irritates a supervisor (e.g. Nelson and Proell 2018). In this study, we examine how staff auditors' personal reputation within their firm can influence the actions they take when they find themselves in a situation where an audit quality enhancing action may come with personal costs. We draw upon the Theory of Organizational Reputation as well as Social Presentation Theory to develop our predictions that auditors with more positive reputations can manage their reputation with greater success when faced with such a predicament. Specifically, we predict and find that auditors with more (less) positive reputations are more (less) likely to engage in quality enhancing behavior and less (more) likely to engage in dysfunctional behaviors. This study demonstrates the importance of considering how staff auditors' perceived reputations may affect their actions, how staff auditors likely manage their supervisors' impressions, and how this shapes their personal cost constraints as they conduct their portion of audit work.

Research examining auditors' professional skepticism has grown significantly because of its direct relation to audit quality (e.g., Hurt et al., 2013); specifically, lower skepticism is at least partially responsible for many negative audit outcomes, including PCAOB actions (e.g., PCAOB 2012). While research generally cites unconscious bias for auditors' judgments and decisions that lead to suboptimal audit processes (e.g., Bazerman et al., 2002), research also needs to examine the extent to which auditors make conscious decisions based on the social and professional costs and constraints they face in various audit contexts (e.g., Agoglia et al., 2015; Commerford et al. 2017). Based on the organizational behavior literature, we describe the audit

setting as an environment where young auditors are and need to be cognizant of their reputation. Characteristics such as multiple supervisors, frequent evaluations, clear organizational norms, and comparable attributes (e.g., utilization rates and chargeable time) create an organizational environment in which auditors' reputations impact their success and influence their behavior (Ferris et al., 2003).

The Theory of Organizational Reputation (Zinko et al. 2007) describes reputation as a perceptual identity based on the collective perceptions of others within the organization, founded on both direct and indirect information regarding the behavior of that individual and its consistency with the expectations and norms of the organization. A positive reputation is meaningful with regard to not only professional outcomes (e.g., promotions, raises) but also one's happiness and self-esteem (Zinko et al., 2012). Related literature on Self Presentation Theory describes individuals as motivated to manage their reputation (Bozeman and Kanckmar 1997), in part by trying to send signals that their behavior is consistent with the expectations and norms within the organization (Ferris et al., 2003). Beyond professional and personal outcomes, a positive reputation likely has a meaningful influence on an individual's work behavior in that a person's reputation serves as an implicit signal of the quality of that individual's work (Hollander 1964; Ferris et al, 2003). For example, a positive reputation allows individuals to operate with greater autonomy such that if they go against organizational norms or expectations their supervisors will give them the benefit of the doubt (Hollander 1958).

Auditing literature asserts that auditors are frequently placed in difficult situations where social pressures or person-specific professional costs can discourage audit quality enhancing actions (QEAs).¹ For example, Brazel et al. (2016) demonstrate how the outcome effect can

¹ As discussed more below, we define a QEA as an action that fulfills an auditor's professional obligation undertaken despite personal cost, which contributes to audit quality either directly or indirectly.

cause supervisors to penalize staff who take appropriate action to investigate potential fraud when no fraud is subsequently discovered. Related studies suggest that avoiding certain QEAs can result in more positive outcomes for staff auditors (e.g., Agoglia et al., 2015; Commerford et al., 2017; Nelson and Proell 2018). However, we predict that possessing a positive reputation provides the auditor with the freedom to violate specific expectations (e.g., exceeding the time budget, irritating the client) without being penalized by supervisors as their positive reputation allows them to receive the benefit of the doubt. Consequently, auditors will be more likely to engage in QEAs when their reputation is positive compared to negative. Alternatively, auditors with a negative reputation are less likely to be given the benefit of the doubt, and these auditors may be more likely to engage in dysfunctional behavior, because they see it as the only effective means of improving their personal outcomes (i.e., evaluation).

We conduct two experiments that examine how reputation affects staff auditors' actual and anticipated behavior when faced with a predicament where they can engage in a QEA. In Experiment 1, staff auditor participants consider the actions of a young staff auditor that has either a positive, negative or changed reputation (based on three prior engagements). We include a changed reputation condition as it allows us to examine the impact a perceived negative reputation with a particular member of the firm while controlling for the competence in the description of the auditor to the participant. Participants believe that the auditor with a positive reputation can maintain their positive reputation despite going over budget if they forewarn the supervisor, whereas the negative and changed reputation auditors are less able to do so. Beyond engaging in more QEAs, we find that positive reputation auditors are perceived to be less likely to engage in dysfunctional behavior (e.g., ghost-ticking, underreporting time) than negative or changed reputation auditors.

We demonstrate a direct causal link between reputation and engaging in QEAs in experiment 2 where we manipulate participants' reputation with a confederate supervisor. We accomplish this by having the supervisor stress positive or critical aspects of their work on the first of two tasks. After receiving this preliminary evaluation, participants conduct a second task, a simulated inventory count and walk-through with opportunities to request an explanation for observed issues during the count as well as to ask for supporting documentation. Requesting explanations and additional documentation cause the inventory to take longer and delay client work in the warehouse. Participants in the high reputation condition request more explanations and documentation (i.e., engaging in more skeptical actions a key QEA) than do the participants in the low reputation condition.

These findings have important implications for supervisors when evaluating and monitoring audit staff, including a more explicit consideration of their reputation within the audit team because of its potential impact on audit quality. This study demonstrates that, not only do audit firms need to consider the implicit incentives and constraints faced by their audit staff, but also how professional characteristics moderate these personal costs. Finally, these findings contribute to the Theory of Reputation in Organizations by linking reputation outcomes back to reputation building and defense, providing empirical evidence for the theorized loop from reputation outcomes to inputs.

II. HYPOTHESIS DEVELOPMENT

Personal Reputation within an Organization

An individual's reputation within an organization is not purely a function of their competence, but is a subjective social construct that is perceptual by nature (e.g., Fine 1996; Gamson, et al. 1992; Rao 1994). A common definition of reputation within an organization, from

Zinko et al. (2007) is as follows: “*a perceptual identity formed from the collective perceptions of others, which is reflective of the complex combination of salient personal characteristics and accomplishments, demonstrated behavior, and intended images presented over some period of time as observed directly and/or reported from secondary sources, which reduces ambiguity about expected future behavior*” (165). It is important that the definition asserts that others perceive the reputation, while the individual provides signals regarding his/her reputation.

Individuals are motivated to manage their impressions to create an identity within the organization (Bozeman and Kacmar 1997). These individuals perceive their reputation as a consequence of their organization’s opinion of their conformity with its norms and expectations (Ferris et al. 2003). They can alter this perception through controllable aspects of this evaluative context as a signal to those who define, through their perceptions, the individual’s reputation (Ferris and Judge 1991), which involves, where possible, matching performance with the audience’s expectations and preferences (Ferris 2003).²

Positive reputations have several potential ramifications. A positive reputation leads to obvious professional outcomes such as promotion, salary increases, and strong evaluations, as well as more personal outcomes (e.g., a better home life and happiness; Zinko et al. 2012). However, there are also meaningful consequences for the individual’s work behavior in that reputation serves as a sort of guarantee that affords individuals more autonomy and allows supervisors to monitor less and be more likely to give the individual “the benefit of the doubt” (Hollander 1964; Ferris et al. 2003). Having a strong reputation allows one to deviate from

² This strategic self-presentation is considered by the impression management literature. In a review, Bolino et al. (2008) identify over 30 types of impression management, including tactics to minimize bad perceptions (e.g., self-handicapping, burying the problem or making excuses, tactics to maximize good perceptions such as self-promotion, ingratiation, conforming to the targets opinions and actions).

expectations and norms (Hollander 1958), leading to greater self-sufficiency and self-efficacy (Zinko et al. 2012).

Reputation in Audit Firms

Public accounting firms possess key contextual characteristics that make workplace reputations prominent. Characteristics of audit firms including episodic evaluations, easily comparable benchmarks (e.g., utilization rates), and clear expectations/norms (e.g., time budgets, workpaper completeness, positive client relationships) are important features of reputation development and influence consistent with the psychology literature (e.g., see Ferris 2003). Further, lower level auditors are somewhat decentrally organized, in that staff auditors often have multiple supervisors, which results in a climate where those with direct experience with staff readily share their perceptions with others within the firm who determine audit engagement staffing (Westermann et al. 2015; Guénin-Paracini et al. 2014). That is, *perception* of work quality (i.e., professional reputation) is a key causal input to staff auditors' success within the firm. Prior research finds, for example, that managers' assessments of an auditor's work quality are influenced by their previous impressions of that subordinate (Tan and Jamal 2001).

Audit staff understand the importance of their reputation as a key factor in their success. A senior associate interviewed by Guénin-Paracini et al. (2014) discussed this topic specifically: "You get very quickly labelled in an auditing firm. [...] [For example if] your superior has it in for you, his friends ask him how you're doing, he pulls you to pieces, and little by little you get a reputation as a numskull (sic). [...] To avoid getting caught up in something like that, you've just got to do everything you can to avoid getting poor assessments." (277) While the quote above suggests that poor assessments can result in negative reputations, auditors also view a positive personal reputation as a way to "play the game" when it comes to scheduling (i.e., being placed

on top clients).³ Given the importance of reputation in the audit environment, as well as the salience of reputational concerns at the subordinate level, it is likely that an auditor's knowledge of his or her reputation within the firm will influence a variety of actions. We consider how research regarding personal reputation within an organization, as well as Self Presentation Theory, can alter behavior within the audit firm, specifically considering skeptical behavior and other quality enhancing actions exhibited by audit staff.

Quality Enhancing Actions

Accounting research has highlighted numerous examples of situations where auditors face a conflict between their professional obligations and more personally beneficial outcomes and desires. For example, Nelson and Proell (2018) find that audit supervisors may become irritated when staff auditors raise issues during the audit that may increase planned audit effort, although supervisors are more appreciative of staff voicing such issues during a formal evaluation (after the audit is over). Similarly, Agoglia et al. (2015) find that, on favored clients, supervisors prefer that their staff underreport time rather than go over budget. Commerford et al. (2018) find that personal costs related to time and effort expended by audit staff can cause them to select biased samples or choose information sources that are easier to document (though less informative). Finally, Brazel et al. (2016) find that supervisors penalize their staff when they undertake additional investigation based on observing a potential issue when that effort did not identify a misstatement. That is, appropriate professional skepticism resulted in lower evaluations, when nothing came from that effort (outcome effect).

In these studies, auditors have to choose whether to possibly incur personal costs to conduct high quality audits. We group these potential choices into the construct of Quality

³ Auditor-related blogs consider this topic often and suggest that, while quality work is important, a strong reputation is required, for example, to get scheduled on key clients (e.g., Life of an Auditor 2010).

Enhancing Actions (QEAs). We define a QEA as *an action that fulfills an auditor's professional obligation undertaken despite personal cost, which contributes to audit quality either directly or indirectly*.⁴ In the audit studies discussed above, part of the potential cost of taking these actions is a possible reputational penalty. For example, going over budget by increasing audit effort or raising issues during the audit may negatively influence the auditor's reputation if their supervisors disapprove of such behavior. In contrast, failure to engage in a particular QEA is often unlikely to be noticed by the supervisor (e.g., Bennett and Hatfield 2013) such that there would be no negative impact, or perhaps a positive impact, on reputation from not engaging in the activity. For example, failure to more fully investigate an issue that arises helps staff meet budget (a positive impact) and avoid negative feedback (e.g., Brazel et al., 2016).

Evaluations are pervasive in auditing, including formal evaluations of individual audit engagements, as well as periodic overall evaluations. Self Presentation Theory indicates that evaluations within an organization do not simply alter an individual's self-esteem, but also serve as integral components of the construction of one's public image (Baumeister 1982). As stated previously, employees are motivated to manage these impressions (Bozeman and Kacmar 1997) using the levers that are most controllable (Ferris and Judge 1991) to demonstrate conformity with, or excellence relative to, the organization's expectations and norms (Ferris 2003). In an audit context, auditors can produce audit workpapers "in-budget" (a positive and observable behavior) by avoiding QEAs (which are often not observable by supervisors). That is, managing the audit budget through avoiding QEAs, or even engaging in dysfunctional behavior, is a

⁴ We adapt Detert and Bruno (2017)'s definition of workplace courage to define QEAs. Workplace courage is "a work domain-relevant act done for a worthy cause despite significant risks perceivable in the moment to the actor"(594). As our focus is on in-role not extra-role responsibilities, we narrow the focus to those actions fulfilling the auditor's professional obligation, and we eliminate the concept of worth in favor of audit quality. Thus, the "worth" of the act in the case of QEAs is not in question: it is defined by firm policy or professional standards. However, because the constructs are similar, we rely on this research when motivating our hypotheses.

controllable feature of the audit process. For example, Smith et al. (1996) find that auditors perceive that underreporting time will lead to better evaluations, higher perceived competence, better assignments, and career advancement. Similarly, avoiding client disruption with questions and requests also can positively impact the staff auditor's relationship with client personnel (e.g., Bennett and Hatfield 2013), which is a meaningful component of audit staff performance.⁵ However, engaging in QEAs that involve skeptical behavior by allocating time and effort and/or disrupting the client provides no guarantee of yielding an explicit outcome (e.g., discovering a misstatement) that would enhance the auditor's reputation. In fact, most such additional investigations are unlikely to result in discovery of a meaningful finding (Brazel et al., 2016).

The above discussion describes QEAs as having positive implications for audit quality, but also potentially having negative personal outcomes for the auditor. However, possessing a positive reputation allows the staff auditor greater autonomy to engage in actions that could otherwise lead to negative performance ratings if not for the implicit guarantee of perceived work quality that comes from a positive reputation. That is, when staff can rely on receiving the benefit of the doubt from their supervisors, they are more empowered to engage in QEAs as they are insulated from the perceptual costs. Thus we predict that auditors with a positive reputation will receive better outcomes from engaging in QEAs and will be more likely to do so.

H1: Staff auditors with more positive reputations will *anticipate* better outcomes for engaging in QEAs than auditors with less positive reputations.

H2: Staff auditors with more positive reputations are *more likely to engage in* Quality Enhancing Actions than auditors with less positive reputations.

⁵ For example, in a job posting, KPMG lists “interact with clients to help ensure the information flow from the client to the audit team is efficient” as a responsibility of an audit associate (<http://us-jobs.kpmg.com/careers/JobDetail/Audit-Associate/32679> accessed 3/26/2018).

III. METHOD

We test the hypotheses with two experiments. In the first, we employ a third person methodology to examine how auditors believe an individual auditor will behave in a described situation. This experiment allows us to address both hypotheses as well as engage in exploratory questioning to better understand the role of reputation within the audit firm. The second experiment involves a controlled setting where we manipulate reputation among our participants to consider the causal link between reputation and auditors' engagement in QEAs.

Experiment 1

Participants

Participants include alumni of a large state university in the Southeast. We sent a targeted recruitment e-mail to students who had graduated from the Masters of Accountancy program in the last 1-3 years, and also posted recruitment messages on the department's social media. We offered an incentive to participate: for each completed survey, we donated \$25 to a scholarship fund for current students. In a ten-day period, we received 98 completed responses: 64 from the e-mail and 34 from social media. Sixty-eight percent of respondents were currently employed as an auditor, and the rest had been employed as a financial statement auditor.

Experimental task

The experimental task, conducted on a computer-based platform, provided descriptions of Jack, a new staff auditor at a large international audit firm. To date, Jack had worked on three engagements with three different supervisors.⁶ We manipulate Jack's reputation by describing aspects of Jack's performance on each engagement. Our 1 x 3 design manipulated reputation at three levels—positive, negative, and changed reputation. After the manipulation, we measure

⁶ We use a third person vignette because it allows us to manipulate reputation through a series of past performances, and study unethical behavior (e.g., underreporting hours, skipping steps) while limiting social desirability bias.

participants' perceptions of Jack's reputation with his supervisor on his upcoming fourth engagement, Sam, and then describe the details of this fourth engagement. It is on this fourth engagement that participants evaluate the likelihood that Jack will take one of a number of possible actions (including actions beneficial or detrimental to audit quality).

Independent Variable

We manipulate the reputation construct by varying descriptions of Jack's performance on his first three engagements, each of which had different supervisors, as well as through Jack's discussion with his "coach" (see Appendix A for full description of the manipulations). We specifically focus on Jack's reputation with his first supervisor, Sam. Thus, consistent with the theoretical definition, reputation in this study is formed over time (specifically, one item each on Jack's first three engagements) through both observation and secondary reports. In the positive reputation (PR) condition, Jack uses technology to increase efficiency, finds and addresses an error with minimal oversight, and asks insightful questions on a plant tour. In the negative reputation (NR) condition, Jack struggles with technology and goes over budget, fails to uncover an error and then requires guidance to address the error, and fails to wear appropriate attire for a plant tour, resulting in his inability to attend the tour and complete his assignment.

Recall that the reputation construct is perceived rather than objectively measured. The PR and NR manipulations demonstrate Jack's reputation with his supervisor, but also send signals about his competence, which may affect participants' evaluations of Jack's likely future actions independently of reputation. To separate reputation from competence, we include a changed reputation (CR) condition where Jack's first engagement is described identically to the NR description, but his next two engagements are described identically to the PR condition. In both the CR and NR conditions, Jack has a negative reputation *with Sam*; however, in the CR

condition, Jack has demonstrated his competence on other engagements. That is, in the CR condition, Sam only knows of Jack's poor performance on the first engagement and not his subsequent improvement, whereas in the PR and NR conditions Sam knows of Jack's performance on all three engagements. This allows us to isolate the effects of perceived reputation from the effects of competence.

After seeing the summary of the first three engagements, participants view a summary of Jack's check-in with his "coach," who is responsible for overseeing Jack's professional development. This meeting summarizes performance on the first three engagements from a secondary source to reinforce the reputation manipulation, and also to reinforce Jack's reputation with Sam (client 1 supervisor), who will be his supervisor on the fourth engagement.

Dependent Variable

In this experiment, the QEA of interest is whether or not Jack will proactively warn the supervisor about a potential budget overage on the fourth engagement. Managing expectations, which involves a proactive discussion with the supervisor suggesting a revised budget, is a voice behavior (e.g. Nelson et al. 2016; Nelson and Proell 2018) in that it involves speaking up about a problem to a supervisor with a goal of operational improvement. Voice behaviors carry risk as they involve challenging the status quo, which may damage relationships (Van Dyne and LePine 1998; Detert and Bruno 2017). In this case, managing expectations challenges the budget set by the supervisor by suggesting that the actual time an average associate would take to complete the task is longer than the original estimate. Because managing expectations is an action that serves audit quality (by helping the supervisor to proactively manage staff time and anticipate overages) but also comes with personal costs (in that the supervisor could react poorly to the notification (Nelson and Proell 2018)), we consider managing expectations to be a QEA.

To elicit participant views of managing expectations, together with other options of reputation management, we introduce a situation where, on his fourth engagement, Jack realizes that he likely will go over budget. Participants view four options Jack can take in response to this predicament, and provide anticipated supervisor evaluations for each action individually. They consider two options in which Jack exceeds the budgeted hours: one in which Jack proactively informs Sam of the expected overage, and one in which Jack completes the work over budget without first informing Sam of the overage. Participants also consider two additional responses. Participants provide Sam's anticipated evaluation if Jack doesn't charge all hours worked, and if Jack rushes through testing (i.e., engages in over-documentation, also known as ghost or phantom ticking). Both actions are considered dysfunctional behavior in the audit literature (Donnelly et al. 2003). Finally, participants assess the perceived likelihood that Jack would choose each of the four possible actions by allocating a percentage likelihood (out of a total of 100%) to each action.⁷

We are specifically interested in participants' anticipation of Jack's success when managing expectations, as H1 predicts that staff auditors will anticipate better outcomes when engaging in QEAs. Participants respond on an 11-point scale to the statement "please assess how you believe Sam will rate Jack's performance in his performance review, on a scale from 1 (unacceptable) to 11 (exceptional)", anchored in the midpoint as "acceptable". We consider an anticipated response above the midpoint ("Acceptable") to be reputation building as it exceeds

⁷ We partially randomize the order in which the options are presented: two within-the-rules options (no action, manage expectations) are always presented before two outside-the-rules options (not charge all hours worked, documenting work not performed), but are randomized within those blocks. We made this choice to mirror a decision process in which unethical options are considered only after ethical options. As all choices are provided to participants before any evaluations are made, participants evaluate a complete choice set when anticipating supervisor responses.

an “acceptable” level of performance, thus creating a positive deviation from norms. We also compare anticipated performance ratings for managing expectations with those for other options.

Results

Manipulation Check

To measure Jack’s reputation with Sam, participants rate their agreement with five statements adapted from Hochwarter et al.’s (2007) reputation scale focusing on technical reputation (Cronbach’s alpha = 0.983). Participants in the PR condition rated Jack’s reputation with Sam as significantly higher than the NR participants (means of 9.79 vs. 2.04, $t=29.64$, $p < 0.0001$) and the CR participants (mean of 9.79 vs. 3.16, $t = 21.41$, $p < 0.0001$). While participants in the CR condition rated Jack’s reputation with Sam as higher than those in the NR condition (mean of 3.16 vs. 2.04, $t=3.35$, $p=0.0014$), the mean reputation rating for Jack in the CR condition was still below the scale midpoint of 6 ($t=-10.44$, $p<0.0001$, one-tailed) suggesting that we effectively manipulated a poor reputation with Sam in both the NR and CR conditions.

Hypothesis Test

Our first hypothesis considers whether auditors anticipate better outcomes for positive reputation auditors engaging in a QEA than those auditors with less positive reputations. We first conduct a two-way mixed ANOVA with reputation (between-subjects) and option (within-subjects) as independent variables (untabulated), and find a significant main effect of both reputation (between subjects, $F=12.27$, $p<0.0001$) and option (within-subjects, $F=69.99$, $p<0.0001$) on anticipated performance rating, with no significant interaction between reputation condition and option.

When Jack manages expectations, participants in the PR condition anticipate higher performance ratings than those in the NR condition ($t=3.82$, $p=0.0002$, one-tailed) and the CR condition ($t=4.92$, $p<0.0001$, one-tailed). The difference between the NR condition and the CR condition is not significant ($t=1.07$, $p=0.2989$), supporting H1. We also compare the anticipated performance ratings to the scale midpoint (i.e., “acceptable”). Recall that a positive reputation is built on positive deviations from norms and expectations (Zinko et al. 2007). Thus, in order to obtain or maintain a positive reputation, the auditor must exceed what is “acceptable” for his role. We find that those in the PR condition anticipate success with managing expectations, in that their anticipated performance ratings are better than acceptable ($t=7.18$, $p<0.0001$, one-tailed). In contrast, those in the CR and NR conditions do *not* anticipate a positive evaluation ($t=1.24$, $p=0.8872$ one-tailed, and $t=.22$, $p=0.4136$ one-tailed, respectively).

We compare these findings to anticipated ratings for other non-QEA options in Jack’s choice set: no action, underreporting time, and skipping steps. In all conditions, participants anticipate success when Jack underreports his time to meet the budget. Also in all conditions, they do not anticipate success when there is a budget overage without managing expectations or when Jack skips steps. In summary, participants anticipate that, while all auditors (even those without a positive reputation) can successfully improve their reputation by underreporting time such that they meet the budget, only those auditors with a positive reputation anticipate obtaining a positive (i.e., above acceptable) evaluation by managing expectations.

[Insert Table 1 here]

Our second hypothesis examines the likelihood that the staff auditor will engage in a QEA based on their reputation. We find that participants believe that the PR auditor is more likely to manage expectations with their supervisor and charge all hours worked than both the

NR auditor ($t=3.32$, $p<0.001$ one-tailed) and the CR auditor ($t=1.36$, $p=0.090$). Additionally, PR auditors are expected to be less likely to engage in dysfunctional behavior (i.e., underreport hours or to skip steps) to meet budget than the NR ($t=3.13$, $p=0.001$ one-tailed) or CR auditor ($t=1.83$, $p=0.036$ one-tailed).

[Insert Table 2 here]

We conduct a mediation analysis to test whether these differences in action likelihoods are due to different expectations of outcomes within the choice set. In this analysis, we use the 5-item reputation scale instead of our manipulation as a measure of reputation as we are interested in how participants' perceptions of Jack's reputation influence their perceptions of Jack's actions. We find that anticipated performance ratings when managing expectations fully mediate both the positive relationship between Jack's reputation with Sam and the likelihood of managing expectations, and the negative relationship between Jack's reputation with Sam and the likelihood of underreporting time. Bootstrapped confidence intervals for both indirect effects are significant at a 99% confidence level. This finding is consistent with our prediction that the differential personal cost (benefit) of QEA (dysfunctional behavior), due to auditor perceived reputation, influences auditor behavior during an audit.

[Insert Figure 1 here]

Additional Analysis

Recall that we created the CR condition to isolate reputation from competence. In that manipulation, the staff auditor's performance on the first job was poor, but the auditor performed well on subsequent engagements. However, the supervisor on the original audit (Sam) only knows of the work Jack did on his engagement (the first). So, while we have attempted to describe an auditor with generally high competence, his reputation is negative with Sam. That is,

our intention is to separate reputation from competence. In our hypothesis tests, participants in the CR condition respond similarly to those in the NR condition, indicating that it is the negative reputation, not competence, that is causing differences between the CR and PR conditions.

To evaluate further whether participants perceive Jack as competent, despite having a negative reputation with Sam, we asked a series of questions about Jack. First, we ask participants how long an “average associate” would take to complete the task assigned to Jack on Client 4 on an 11 point scale anchored at -5 (significantly less than Jack), 0 (same as Jack), and +5 (significantly more than Jack). Participants in the NR condition believed that an average associate would take less time than Jack ($t=5.82$, $p<0.0001$, one-tailed), whereas participants in the CR and PR conditions did not ($t=.55$, $p=0.7069$ and $t=4.44$, $p=.9999$ both one-tailed).

We also asked participants general questions about Jack to understand Jack’s reputation with the *participant*. Participants in the CR condition were more likely than those in the NR condition to seek advice from Jack both about technical issues ($t=8.99$, $p<0.0001$), and about problems with supervisors ($t=5$, $p<0.0001$). Even though participants perceived Jack to be more competent in the CR condition than in the NR condition, they expect him to be equally unsuccessful in managing his supervisor’s expectations, and thus equally likely to engage in dysfunctional behavior. Thus, the CR condition provides evidence that Jack’s reputation is driving these findings about Jack’s actions, not Jack’s competence.

Experiment 2

Experiment 1 suggests that auditors will be more likely to engage in QEAs when they have a positive reputation. We next extend and replicate these findings in a second experiment where we measure *participant’s* actual actions in an audit simulation. That is, we create a social situation in which to consider our participants’ behavior, where they are placed in an audit

predicament (bothering the client) and are concerned with their supervisor's evaluation.

Experiment 2 also extends Experiment 1 by considering professional skepticism as the QEA.

Participants

We used graduate accounting students with an average of 2.9 months of audit experience as an appropriate proxy for staff-level auditors with minimal experience. Participants were 52 Masters of Accountancy Students, 50% female, from a large state university in the Southeast.

Experimental Task

In individual rooms, we provided participants with a laptop computer that had links to all case materials. Before beginning the cases, participants were introduced to an experimental confederate in the role of the audit supervisor, which allowed the participant to know that an actual person would be providing feedback on their work, and to form an initial impression of the confederate before the confederate provided feedback. Participants were told that their work would be reviewed and that they would receive both written and verbal feedback similar to feedback from a supervisor in practice.

Participants then began an accounts receivable (AR) testing case. Participants completed AR confirmation testing, in which they tested confirmations and performed alternative procedures. A single seeded exception was included in the case. A confirmation was received, but the customer responded that the balance was incorrect. If participants chose to inquire further, they would obtain evidence that supports the client's balance, not the customer's response. After approximately 17 minutes had passed, the supervisor came to their room and performed an "in-process review." This in-process review served as the implementation of the reputation manipulation.

We then asked participants to switch tasks to an inventory observation task. Before beginning the task, participants answered questions to measure their perceived reputation with the supervisor, and their sense of power in that relationship. After a brief tutorial, participants complete a sheet-to-floor count, a floor-to-sheet count, and made observations during the count. Counts contained minor seeded variances. Each observation involved a description of an issue observed while in the warehouse. They were given an option to inquire further or not. If they choose to inquire further, they received an explanation from the warehouse manager. They were then given the option to request support or not. When participants completed the inventory case, they completed a questionnaire in which they answered questions about the case and provided demographic information.

Independent Variable – Reputation with Confederate

We manipulate participant reputation with the confederate in the role of “Sam,” the supervisor. There were two separate versions of the AR Testing case for participants in each condition designed to allow participants in the high reputation condition to complete more selections than those in the low reputation condition. While all participants viewed the same audit support and completed the same tests in the same order, participants in the low reputation condition (lowrep) had to test multiple invoices to complete a single alternative procedures selection, while participants in the high reputation condition (highrep) testing those same invoices completed multiple alternative procedures selections. We pilot tested the AR Testing case using a group of undergraduate students. At the 17-minute mark, pilot testers had completed between 3 and 11 testing selections. We used this information to create supervisor expectations.

The in-process review manipulated reputation by setting expectations for both efficiency and effectiveness, and then having participants either exceed or fall short of such expectations.

The full feedback script is provided in Appendix B. Efficiency expectations were set as 3 selections for the high reputation group, and 10 selections for the low reputation group. For the effectiveness portion of reputation, the reviewer commented on the participant's documentation of the confirmation that was received with an exception. Software was installed on participant computers that allowed the researchers, together with the confederates, to view participant documentation before the confederate performed the review. We chose between three types of specific feedback (commenting on the explanation of the exception, the documentation of the investigation, or the conclusion) based on actual participant documentation. In the HighRep condition, the reviewer praised a particular element of the participant's documentation, whereas in the LowRep condition the reviewer suggested improvements on a particular element of the participant's documentation.⁸

Dependent Variable

We operationalize skeptical action in the Inventory Testing Task by measuring the number of times the participant requests either more information or supporting documentation about an observation. The case consists of five observations (see Appendix C). For each observation, a participant can request more information, and subsequently request supporting documentation; so, the variable can range from 0 to 10. All observations are purposefully ambiguous as to whether an exception exists – no evidence provided should lead the participant to believe inventory quantities are potentially materially misstated; however, some evidence may be relevant to other audit areas. It is important to note that these requests alter the warehouse

⁸ Given the unique nature of this design (i.e., altering how participants believe somebody perceives their abilities), for those participants in the low reputation condition we provided a short debrief immediately after they completed the experiment to tell them that the confederate was purposefully concentrating on negative aspects of their work to simulate a more critical supervisor. After all participants finished the experiment, we had a larger debrief that included a broad discussion of their performance (e.g., managing the client) and discussion of the resulting behavior.

manager's behavior—he becomes a bit more irritated commenting that these requests increase the likelihood that the inventory count will not be done in time to prevent work disruption.

Results

The materials were designed with the objective of having every participant correctly identify the exception in the AR testing, as the confederate reviews the participant's work on this issue to manipulate reputation. However, 17 participants (32.7%) did not identify the exception. Given this exception was designed to be obvious, we presume that missing this error suggests a lack of adequate effort or knowledge of auditing. More importantly, we are unable to adequately manipulate reputation if participants did not provide the basis for doing so. We therefore remove these 17 participants—our analyses consider only the remaining 35 participants.⁹

We test our manipulation with a manipulation check measure based on a seven-question scale adapted from Hochwarter et al. (2007). Our manipulation alters participants' beliefs about how their supervisor perceives their audit ability. Participants responded to these questions (e.g., "Sam thinks I am a very competent auditor", "I have a good reputation with Sam") by stating their agreement on a seven-point scale (Cronbach's alpha = 0.904). Participants in the high-reputation condition believed their reputation with Sam to be significantly higher than those in the low-reputation conditions (means 5.66 > 3.56; p-value < 0.001) suggesting our manipulation was effective.

Recall that the outcome variable of interest is the extent of QEA (skeptical action), in this case the number of times participants make requests for explanations and supporting documentation from the warehouse manager. Participants made more requests in the high

⁹ If these 17 participants are included in the analyses, they significantly alter our findings in a way that justifies omitting their responses. Specifically, if these participants are included, an interaction indicates that the manipulation has no effect for participants who do not find the AR exception.

reputation condition (4.6) compared to the low reputation condition (3.1; $p = 0.020$, one-tailed).¹⁰ We also analyzed this by type of request and found that high reputation participants were more likely to inquire further than were low reputation participants (3.00 vs 2.33, $t=1.79$, $p=0.042$ one-tailed) and were more likely to request additional documentation (2.33 vs .80, $t=1.96$, $p=0.029$). Post-experimental questions suggest that, relative to low reputation participants, high reputation participants liked Sam more (5.90 vs 4.93; p -value 0.042, two-tailed) and expected better evaluations from Sam (5.05 vs 3.73; p -value 0.002, two-tailed). Consistent with our expectations, high reputation participants were more concerned with getting the right answer for the inventory case than were low reputation participants (1.45 vs 2.13; p -value 0.005). That is, low reputation participants placed less emphasis on getting the right answer, instead interrupting the warehouse manager less and completing the inventory closer to the agreed-upon time.

[Insert Table 3 here]

This second experiment provides a direct causal link between reputation and auditor skeptical behavior by controlling for actual competence through random assignment. Taken together, the two experiments support our claim that quality enhancing actions, such as reporting an error or speaking up about an audit issue, carries risk and thus there is variability in whether an auditor will act that can be explained, in part, by the auditor's personal reputation.

IV. Discussion

In this paper, we conduct two experiments that test whether an auditor's perceived personal reputation influences their willingness to act in manners that contribute to overall audit quality, but may involve some social risk. We find that auditors perceive the incremental benefit

¹⁰ As stated earlier, there were two confederates in the role of supervisor. Based on a marginally significant interaction when confederate is added to the model, one of the confederates has a marginally stronger effect on the dependent variable than the other. If we look at the simple effect of this single confederate, the dependent variable is in the same direction, but not significant ($n = 16$).

of managing expectations when faced with an anticipated budget overage to be greater when the auditor has a positive reputation with his supervisor than when the auditor has a negative reputation with his supervisor. Furthermore, we find that auditors with positive reputations are less likely to engage in dysfunctional behavior than auditors with negative reputations, even when we isolate the individual's reputation from their competence. We then extend our findings to another type of action: skeptical action. We find that students, as proxy for novice auditors, engage in more skeptical actions when they have a more positive reputation with a supervisor than when they have a less positive reputation.

This study contributes to both the reputation literature and to the audit literature. Reputation researchers have theorized that the outcomes of reputation can influence the reputation building process, creating a feedback loop (Zinko et al. 2007; Zinko et al. 2012). By demonstrating how perceptions of existing reputation can affect future reputation-building actions, we provide empirical evidence that such a loop does exist.

Audit researchers have previously identified various risk concerns that can affect an auditor's willingness to act in ways that affect audit quality: social mismatch affects skeptical action (Bennett and Hatfield 2013), leadership type affects willingness to speak up about audit issues (Nelson et al. 2016), and error climate affects error reporting (Gold et al. 2014). It has been proposed that such auditor behaviors are influenced by the incentive structures faced by these auditors (e.g., Agoglia et al. 2015). We find evidence that this incentive structure is important in understanding auditors' actions and that the auditor's perceived personal reputation moderates the proclivity to engage in these actions. Thus, we contribute to this existing stream of literature by proposing a moderating variable to the effect of various risks on action: personal

reputation. Future research can further explore how an individual's personal reputation influences the character and interpretation of risks in the audit setting.

Additionally, our findings have important implications for both auditors and students who are training to enter the audit profession. Audit supervisors, who are critical in the formation of subordinate auditors' reputations, should be cognizant of their subordinate's perceived reputations, and the potential effects on their work product. Audit students should be made aware of the importance of developing a strong personal reputation early on in their career.

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Appendix A (Experiment 1) Reputation Manipulations

We first develop Jack’s reputation through a discussion of his performance on previous clients, in which he deviates either positively or negatively from expectations. In the changed reputation condition, he deviates negatively from expectations on the first engagement, but positively on the second two engagements. This creates a positive overall reputation, but a negative reputation *with Sam*.

Changed Reputation	Negative Reputation	Positive Reputation
Same as Negative	On Client 1, Jack worked inefficiently, though effectively, on all assigned tasks. He spent a lot of extra time figuring out how to use the firm's technology, ultimately completing all tasks, but not in a timely manner. His senior, Sam, was disappointed with Jack's inefficiency and technological skills. Overall, Sam noted that Jack performed worse than the average audit associate.	On Client 1, Jack worked efficiently and effectively on all assigned tasks. He used the firm's technology to complete all tasks in a timely manner, exhibiting superior skill. His senior, Sam, was pleased by Jack's efficiency and technological skills. Overall, Sam thought that Jack performed better than the average audit associate.
Same as Positive	While working on Client 2, Jack failed to detect an error in the audit area to which he was assigned. Jack failed to detect the error, in part, because of his weak technological skills. After his senior, Blake, found the error during his review of Jack's work, Blake determined the additional testing necessary, brought the error to Jack's attention, and asked Jack to perform the additional testing and document the error. Blake was disappointed that Jack failed to detect the error, needed a lot of oversight to address the error after Blake discovered it, and exceeded the budgeted hours for the work he completed.	While working on Client 2, Jack uncovered an error in the audit area to which he was assigned. Jack detected the error, in part, because of his strong technological skills. After briefly consulting with his senior, Blake, about the error and his plans to address the error, Jack performed additional testing and documented the error. Jack completed his work on the audit area under budget despite the additional work he performed to detect and document the error. Blake was impressed that Jack found the error on his own, addressed it effectively with minimal oversight, and still managed to come in under budget.
Same as Positive	While working on Client 3, Jack's audit team was scheduled to tour the client's manufacturing plant. Prior to the tour, Jack's supervisor Pat had provided him with instructions on what to expect during the tour, including appropriate attire, and had also given him a list of points to consider and questions to ask while on the plant tour. Jack's main responsibility during the tour was to take notes on discussions between Pat and the plant manager. On the day of the tour, Jack forgot to wear appropriate attire, and had to stay behind in the audit workroom while the rest of the team went on the plant tour. Pat was disappointed that Jack did not wear appropriate attire even though Pat had told him about the required attire ahead of time.	While working on Client 3, Jack's audit team was scheduled to tour the client's manufacturing plant. Prior to the tour, Jack's supervisor Pat had provided him with instructions on what to expect during the tour, including appropriate attire, and had also given him a list of points to consider and questions to ask while on the plant tour. Jack's main responsibility during the tour was to take notes on discussions between Pat and the plant manager. On the day of the tour, Pat was impressed with Jack's appropriate attire, Jack's detailed and accurate notes, as well as Jack's ability and willingness to ask important questions during the tour.

Appendix A (Experiment 1)
Reputation Manipulations - Continued

We next reinforce Jack’s overall reputation via a third-party source: Jack’s coach. We also reinforce Jack’s reputation *with Sam*. In the changed reputation condition, participants are informed that Sam has **not** heard about Jack’s performance on engagements other than Client 1.

Changed Reputation	Negative Reputation	Positive Reputation
<p>In their meeting, Jack's coach said the following about Jack's experience so far: <i>"I've heard from Sam, Blake, and Pat about your performance. Sam told me he was not impressed, but Blake and Pat told me that they were very impressed. While Sam told me that your performance fell below his expectations for an audit associate at your experience level, Blake and Pat told me that your performance exceeded their expectations for an audit associate at your experience level.</i></p> <p><i>You have recovered strongly from your weak start, but will need to keep up the good work. <u>It looks like you will be working with Sam again on your next engagement.</u> I hope the engagement goes well."</i></p>	<p>In their meeting, Jack's coach said the following about Jack's experience so far: <i>"I've heard from Sam, Blake, and Pat about your performance. They all were not impressed. They all told me that your performance fell below their expectations for an audit associate at your level.</i></p> <p><i>You are off to a weak start, but can recover by doing good work going forward. <u>It looks like you will be working with Sam again on your next engagement.</u> I hope the engagement goes well."</i></p>	<p>In their meeting, Jack's coach said the following about Jack's experience so far: <i>"I've heard from Sam, Blake, and Pat about your performance. They all were very impressed. They all told me that your performance exceeded their expectations for an audit associate at your experience level.</i></p> <p><i>You are off to a strong start, but will need to keep up the good work. <u>It looks like you will be working with Sam again on your next engagement.</u> I hope the engagement goes well."</i></p>
<p>For his fourth engagement, Jack again will be working with Sam. Jack knows that Sam has not heard about his engagement performance on Client 2 with Blake and on Client 3 with Pat. Sam met with Jack prior to the engagement to discuss Sam's expectations of Jack. During that meeting, Sam said the following: Sam: <i>"Your overall performance with me on Client 1 fell short of my expectations. This engagement will be difficult, but it will be an opportunity for you to show what you can do."</i></p>	<p>For his fourth engagement, Jack again will be working with Sam. Jack knows that Sam has heard about his engagement performance on Client 2 with Blake and on Client 3 with Pat. Sam met with Jack prior to the engagement to discuss Sam's expectations of Jack. During that meeting, Sam said the following: Sam: <i>"Your overall performance so far has fallen short of expectations, including your work with me on Client 1. This engagement will be difficult, but it will be an opportunity for you to show what you can do."</i></p>	<p>For his fourth engagement, Jack again will be working with Sam. Jack knows that Sam has heard about his engagement performance on Client 2 with Blake and on Client 3 with Pat. Sam met with Jack prior to the engagement to discuss Sam's expectations of Jack. During that meeting, Sam said the following: <i>"Your overall performance so far has exceeded expectations, including your work with me on Client 1. This engagement will be difficult, but it will be an opportunity for you to show what you can do."</i></p>

Appendix B (Experiment 2) Reputation Manipulation Script

After the participant has completed approximately 17 minutes of the AR task, the confederate re-enters the room to conduct an in-process review. Confederates followed the script below, adapting their commentary on the participant’s documentation to address that participant’s work. The manipulation creates a positive or negative deviation from expectations in two categories: efficiency and effectiveness.

Review – HighRep	Review – LowRep
<p>Hi {{Name}}, we’re about up for our time on this first task. Why don’t you finish up the item you’re working on, and when you get to the review screen I will do a quick review of your AR testwork so far. A number of students have only completed three sections at this point. How many have <u>you</u> finished?</p> <p><i>(Student responds.)</i></p>	<p>Hi {{Name}}, we’re about up for our time on this first task. Why don’t you finish up the item you’re working on, and when you get to the review screen I will do a quick review of your AR testwork so far. A number of students have completed more than 10 selections at this point. How many have <u>you</u> finished?</p> <p><i>(Student responds.)</i></p>
<p>Wow, that’s much more than I expected!</p> <p>In general, when you first start working in practice, most students have the same technical knowledge from school. Efficiency is one way to really stand out.</p> <p>You did well on that!</p>	<p>OK, that’s less than I expected.</p> <p>In general, when you first start working in practice, most students have the same technical knowledge from school. Efficiency is one way to really stand out.</p> <p>You’ll need to work on that.</p>
<p>OK, let me take a look at your documentation. You’ve done great here so far. Can you walk me through this selection here?</p> <p><i>(Student shows confirmation and explains. Say “good” at appropriate pauses.)</i></p> <p>Documenting errors can be challenging. You’ve done a good job of explaining the exception/documenting the investigation/concluding on exception.</p> <p>Having the technical skills to write clear conclusions is another way to stand out at work.</p> <p>Again, you’ve done well on that!</p>	<p>OK, let me take a look at your documentation. You’ve done OK here so far. Can you walk me through this selection here?</p> <p><i>(Student shows confirmation and explains. Say “ok” at appropriate pauses.)</i></p> <p>Documenting errors should be straightforward. You need to better explain the exception/better document the investigation/better conclude on exception.</p> <p>Having the technical skills to write clear conclusions is another way to stand out at work.</p> <p>Again, you’ll need to work on that.</p>

“I know you haven’t finished yet, but I do need you to switch to another task now. You’ll get some written review notes on this AR task later.”

Remainder of script transitions student to Inventory Task.

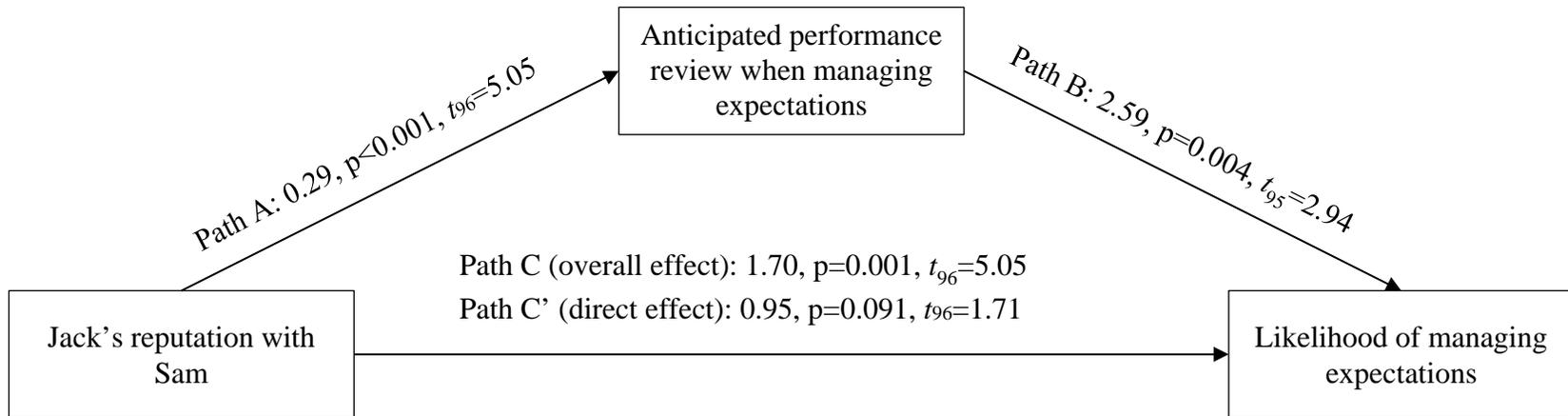
Appendix C (Experiment 2) Inventory Observations

The dependent variable in Experiment 2 is skeptical action, operationalized by measuring the participant's choice to inquire further about an observation, and the participant's choice to request supporting documentation based on an observation. The initial observation (after which the participant chooses whether or not to inquire) and the warehouse manager's response (after which the participant chooses whether or not to request supporting documentation) are shown below. The explanations were provided in the form of an audio recording, coupled with an image of the warehouse manager with a speech bubble containing the full text of the response.

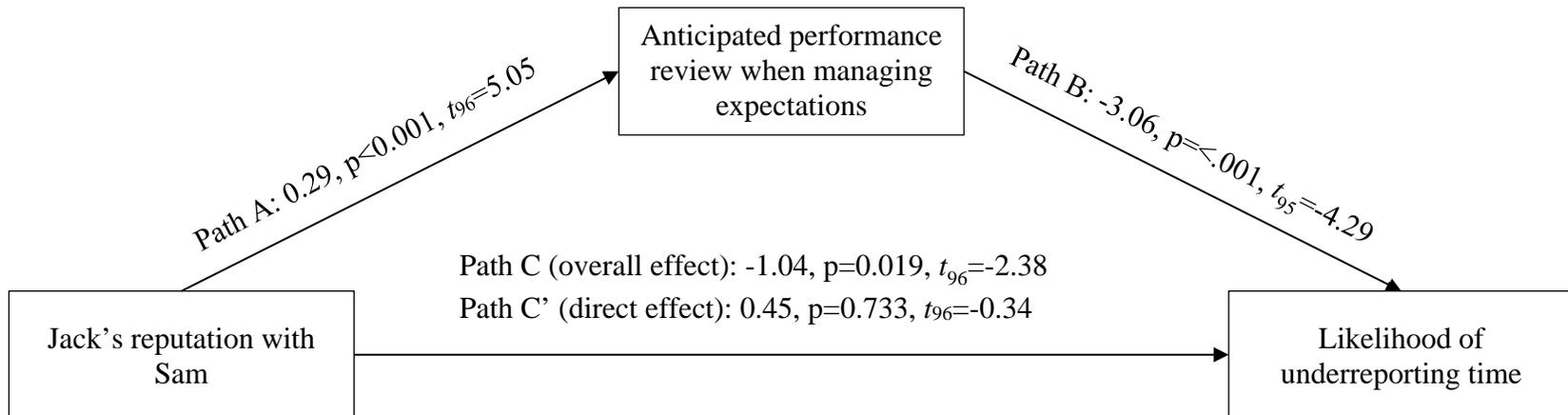
Observation	Explanation
<p>While moving about the warehouse, you observe certain inventory that is segregated from the rest of the population, tagged with red tags instead of the usual green tag. This inventory is labeled SharpAct. These bins are not listed on your inventory listing.</p>	<p>These are the SharpAct items discussed in the count instructions I gave you earlier.</p> <p>We keep certain goods on consignment - they are owned by SharpAct. We still count them to report quantities to SharpAct, but we use red tags to keep the counts separate. These are our only consigned goods.</p> <p>Sam is well aware of this arrangement - nothing has changed since the last time I told him about it.</p>
<p>While moving about the warehouse, you observe one bin that appears old and dusty.</p>	<p>Sure, we have some slow-moving items in the warehouse.</p> <p>Sam knows all about it - it is typically clothing of non-standard sizes. Our accounting department checks up on these things regularly.</p> <p>You note the SKU number of the dusty box. You also obtain a copy of the last "slow moving inventory report" Graham prepared for the accounting department.</p>
<p>While moving about the warehouse, you observe a piece of equipment with a tarp over it and a sign that says "out of service".</p>	<p>Yes, this piece is out of service. It's been out about two months.</p> <p>We haven't gotten any orders in that require it lately, so it hasn't been high priority for maintenance. We should be getting it fixed soon.</p> <p>Listen - we really need to move things along. Sam and I agreed that we would be done at 9:30am, and I'm worried we're going to go over.</p>
<p>Through general discussions you've heard among the workers, it sounds like there was a safety incident in the plant earlier this week.</p>	<p>Yes, that was pretty serious. There was an accident with one of our forklifts, and an employee was hospitalized.</p> <p>The company is in the process of doing a safety inquiry, but meanwhile they've sent out reminders regarding safety protocols.</p> <p>So Sam told me we'd be done by 9:30. I've got my team coming in to work at that time. You really need to get moving here.</p>
<p>While moving about the warehouse, you observe certain damaged items that had been set aside and excluded from the count.</p>	<p>This was in those instructions I gave you. If we notice a damaged good during the count, we set those goods aside and exclude them from the count. We also keep a damaged goods listing.</p> <p>Sam told me we'd be done by 9:30. Every minute we go over that time costs the company money both in wages and lost productivity.</p> <p>You need to get moving.</p>

Figure 1
(Experiment 1)
Mediation Analysis

Panel A



Panel B



Both analyses resulted in bootstrap confidence intervals of the indirect effect that are significant at 99% Confidence Level

Table 1
(Experiment 1)
Consideration of All Reputation Management,
Including Underreporting Time or Phantom Ticking

Panel A: Jack’s Anticipated Performance Rating by Condition and Action

Condition	No Reputation Management ^a	preemptive discussion with supervisor ^a	Under-report hours to meet budget ^b	Skip steps to meet budget ^b
Positive Reputation (PR) (n = 33)	5.15	7.91***	8.36***	5.09
Negative Reputation (NR) (n=35)	3.66	6.08	7.46***	4.06
Changed Reputation (CR) (n=30)	3.17	5.47	7.77***	3.87

Panel B: Significance Tests

Performance Rating: No Reputation Management

Comparison	t-statistic	p-value
PR > NR	4.33	<0.001 ^a
PR > CR	4.88	<0.001 ^a
NR ≠ CR	1.04	0.304

Performance Rating: Manage Expectations (Preemptive Discussion with Supervisor)

Comparison	t-statistic	p-value
PR > NR	3.82	<0.001 ^a
PR > CR	4.92	<0.001 ^a
NR ≠ CR	1.07	0.291

Performance Rating: Under-report hours to meet budget

Comparison	t-statistic	p-value
PR > NR	1.50	0.069 ^a
PR > CR	0.92	0.180 ^a
NR ≠ CR	0.47	0.639

Performance Rating: Skip steps to meet budget

Comparison	t-statistic	p-value
PR > NR	1.57	0.061 ^a
PR > CR	1.86	0.034 ^a
NR ≠ CR	0.27	0.790

^a These are directional tests, so the p-value is one-tailed.

*** Significantly greater than 6 (scale midpoint, anchor of “acceptable”) p<.001.

Table 2
(Experiment 1)
Likelihood of Audit Staff Actions

Panel A: Likelihood Jack Will Choose Each Action ^a

Condition	Report all hours with preemptive discussion with supervisor	Report all hours with no reputation management	Under-report hours to meet budget	Skip steps to meet budget
Positive Reputation (PR) (n = 33)	38.33	19.70	28.27	13.70
Negative Reputation (NR) (n=35)	24.43	18.83	36.28	20.46
Changed Reputation (CR) (n=30)	31.33	16.47	37.47	14.73

Panel B: Significance Tests

Dependent Variable: Likelihood Jack will report all hours with preemptive discussion with supervisor

Comparison	t-statistic	p-value
PR > NR	3.32	<0.001 ^b
PR > CR	1.36	0.090 ^b
NR ≠ CR	1.50	0.139

Dependent Variable: Likelihood Jack will under-report to meet budget

Comparison	t-statistic	p-value
PR < NR	2.15	0.018 ^b
PR < CR	2.24	0.014 ^b
NR ≠ CR	0.30	0.763

Dependent Variable: Likelihood Jack will under-report OR skip steps to meet budget

Comparison	t-statistic	p-value
PR < NR	3.13	0.001 ^b
PR < CR	1.83	0.036 ^b
NR ≠ CR	0.91	0.369

^a Participants allocated 100% over four possible actions: Report all hours with no reputation management; Report all hours with preemptive discussion with supervisor; Under-reporting hours to meet budget; Skipping steps to meet budget.

^b These are directional tests, so the p-value is one-tailed.

Table 3
(Experiment 2)
Information Requests

Panel A: Descriptive Statistics of Information Requests

Condition	Inquire Further	Request Documentation	Total Requests
	Mean (sd)	Mean (sd)	Mean (sd)
High Reputation (n=20)	3.00 (1.255)	1.60 (1.429)	4.60 (2.458)
Low Reputation (n=15)	2.33 (0.816)	0.80 (0.775)	3.13 (1.125)

Panel B: Significance Tests

Dependent Variable: Inquire Further

Comparison	t-statistic	p-value
High > Low	1.79	0.042 ^a

Dependent Variable: Request Documentation

Comparison	t-statistic	p-value
High > Low	1.96	.0294 ^a

Dependent Variable: Total Requests^b

Comparison	t-statistic	p-value
High > Low	2.14	0.020 ^a

^a These are directional tests, so the p-value is one-tailed.

^b While t-tests provide preliminary evidence, the level of documentation requests are dependent on whether the participant inquired further, and so we also conduct a Poisson regression to better fit our data. We first created a new dependent variable, skepticism, for each observation. This was coded as 0 if the participant neither inquired further nor requested documentation, 1 if the participant inquired further but did not request documentation, and 2 if the participant both inquired further and requested documentation. This resulted in 5 skepticism measures for each participant: one for each observation. We conducted a repeated measures Poisson regression to model the level of skepticism applied based on reputation condition, clustered by participant. We find that the level of skepticism is significantly higher for participants in the high reputation group ($Z=3$, $p=0.003$).