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AN EMPIRICAL STUDY OF CANADIAN COMPANIES TO DETERMINE CLIENTS' PREFERRED RELATIONSHIP APPROACH WITH THEIR FINANCIAL AUDITOR[1]

Abstract

The purpose of our research is to determine the relationship approach that clients (buyers) prefer to have with their financial auditors (sellers). The relationship between clients and their auditor is different from typical buyer-seller relationships documented in the marketing literature. Audit clients pay for the audit service[2]; however, the service is used by a third-party, which causes potential conflict between the auditor and the client. The success of the audit service depends on clients' relational interactions with their auditor, yet we know very little about the client's relationship perspective. We draw on the relationship marketing literature to help define and measure clients' relational approach preferences with their auditor. In the relationship marketing literature, relationship approaches are defined as a relational approach or a transactional approach. The results of a nationwide study of Canadian corporations show that clients prefer a relational approach with their auditor. In addition, surprisingly, clients not only want a relational approach, but they also want to remain at arm's length, as required by audit regulators. These results contradict theory in the auditing literature that predicts that clients would prefer a more transactional approach with their auditor. This research provides significant contributions to the accounting and marketing literature.

Key Words

Relational, transactional, auditing, auditor, accounting, buyer-seller, client-auditor relationship, marketing, third-party user, audit service.

Introduction and Objectives

The relationship between auditors (sellers) and their clients (buyers) is different from other typical buyer-seller relationships studied in the existing marketing literature. The client who buys audit services pays for the service, but does not use the service. Those that use the audit service are considered third-party financial statement users (CICA, 2006, 5025.07 CICA). Therefore, the auditor-client relationship is not a dyadic relationship but rather a triadic relationship, given the presence of this third-party user. The presence of the third-party user has been given as a reason for potential conflict between the auditor and their client, referred to as *Role Strain* (Kleinman and Palmon, 2000).

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[1] Throughout our article, we use the term 'auditor'. This term is intended to mean 'financial auditor'.
[2] When we refer to 'audit service', we intend to mean the year-end financial audit or review required by all corporations.

It is important that we deepen our understanding of auditor-client relationships from the client perspective since the success of the audit service has been considered the result of relationship success between auditors and their clients. In fact, some researchers consider corporate audited financial statements to be the product of negotiations between clients and their auditors (Iyer and Rama, 2004). In addition, the client's perception of their relative power influences their tactics and strategies in negotiations with the auditor (Iyer and Rama, 2004; Kleinman and Palmon, 2001). Moreover, client cooperation with their auditor is an important part of the audit service, since the client possesses information that the auditor needs: there is an information asymmetry in favour of the client (Beattie *et al.,* 2001).

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

Moreover, in the audit literature we identify a problem: it is not clear whether the client perceives the audit service as a non-value added commodity or as a value-added service. This perception may influence the client's approach to their relationship with their auditor. To help us bring some light to this problem, and to further our understanding of the client's relational approach preferences we draw on the relationship marketing theory and empirical studies, where relationships between buyers and sellers are defined and measured as either a relational approach or a transactional approach.

Therefore, the objective of this research is to determine the audit client's preferred relational approach with their auditor. Theory from the relationship marketing literature explains that when clients perceive a service as a commodity, with little value, they prefer a transactional approach, not having a relationship with their service provider (Berry, 1995; Gronroos, 1997;

2000; Gummesson, 2002; Pels *et al.,* 2000; Sheth and Parvatiyar, 2000). Whereas, when a client perceives a service as value added and important, they desire a relational approach with their service provider (Berry, 1995; Gronroos, 1997; 2000; Gummesson, 2002; Pels *et al.,* 2000; Sheth and Parvatiyar, 2000).

After pre-testing multi-item relationship marketing variables for their relevant use in the audit context, we conduct a Canadian wide mail-out survey, where we survey financial professionals from 1090 Canadian corporations to measure their relationship preferences with their auditors. The results indicate that the audit client prefers a more relational approach with their auditor. In addition, individual item results show that clients prefer a cooperative and trusting relationship. As well, clients want value-added information from their auditor. However, clients do not want to exercise their power to influence clients, which has been suggested in past audit research. Additionally, clients want to remain at arm's length, respecting audit regulations, which has been an on-going concern among audit regulators.

Our results contribute to the audit literature by contradicting power models and resource dependency theory. Audit clients seem to prefer not exercising their power in order to maintain a relationship with their auditor. In addition, our results contribute to marketing theory and practice by providing a new triadic model where the buyer and seller are different from the traditional buyer-seller relationships studied in the marketing literature.

We structure our research as follows. We present an audit and marketing literature review, followed by a conceptual framework, which leads to our hypothesis. We then explain our method used to analyze our hypothesis. We then present the findings of our study. We conclude by discussing our overall results, the study's limitations, and opportunities for future research.

Literature Review

Audit

Auditor tenure has sparked debate in the audit literature and the results are mixed. Calls for mandatory rotation of audit firms have triggered opposing views by the academic auditing community, as well as by auditing regulators. The central question surrounding the debate is whether close auditor-client relationships reduce the quality of the audit service. Auditors have been blamed for acquiescing to client demands in close relationships and therefore not acting as an independent auditor, as stipulated by audit regulations (Arel *et al.,* 2005; George, 2004; Shafer *et al.,* 2004).

The opposing argument is that close relationships, between auditors and their clients, improve the audit service since auditors are better able to understand their client's business (George, 2004). A close relationship between the auditor and the client results in knowledge sharing, which is critical to the audit process (Arel *et al.,* 2005). Evidence from the client is considered an important source and a good starting point for the audit planning and process (Arens *et al.,* 2007; Kopp *et al.,* 2003). Therefore, the auditor is dependent on client involvement and cooperation (Arel *et al.,* 2005; Kopp *et al.,* 2003; Rennie *et al.,* 2006). Client cooperation and management provided evidence have been shown to increase audit effectiveness (Comunale *et al.,* 2003).

The conflict over the auditor having a close working relationship with the client and remaining independent has created what Beattie *et al.* (2000) refer to as a paradox. This closeness has given rise to concern over adequate auditor independence to assure an objective audit process (Beattie *et al.,* 2000; 2001; Kleinman *et al.,* 2000; 2001). A question that surfaces from the auditor independence debate is: Is the auditor able to establish a close relationship with the client in order to understand their business and perform an effective audit, and at the same time, able to maintain a certain distance to remain independent in accordance with audit regulations?

Relationships between auditors and clients are important since financial statements are considered the result of auditor-client negotiations (Gibbens *et al.,* 2005; Iyer and Rama,

2004). Behavioural studies that investigate the negotiation process between auditors and clients produce conflicting results (Beattie *et al.,* 2000; 2001; 2004; Gibbens *et al.,* 2001; 2005; Iyer and Rama, 2004; Kleinman and Palmon, 2000; 2001; Trotman *et al.,* 2005).

Gibbens *et al.* (2005) found that negotiations between CFOs (clients) and audit partners (auditors) end with a distributive (win-lose) outcome, where each party tries to convince the other party to accept its position (Gibbens *et al.,* 2005). Gibbens *et al.* (2005) claim that their results are contrary to results in the negotiation literature, in which most partners seek an integrative (win-win) solution. These results are criticized for relying on the Gibbens *et al.* (2001) model as the unique theoretical framework and not referring to a wider scope of general negotiation theory (Johnstone, 2005). For example, Gibbens *et al.*'s (2005) results differ from negotiation theory, where both parties desire a win-win solution (Fisher and Ury, 1991).

Beattie *et al.* (2000; 2004) found opposing results to those of Gibbens *et al.* (2005), where audit clients desired a more cooperative relationship during negotiations resulting in an integrative solution (win-win) (Trotman *et al.,* 2005). Cooperative relationships, where both parties work to achieve an optimal solution, have been shown to result in long-term relationship success (Beattie *et al*., 2001; 2004; Kleinman and Palmon, 2000).

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

To summarize, the negotiation research shows conflicting outcomes between auditors and their clients (a win-win outcome versus a win-lose outcome). In addition, the negotiation research fails to provide adequate results from the client's perspective. Moreover, the negotiation literature does not consider important elements of business negotiations such as the relationships between buyers and sellers, which have been well documented in the marketing and negotiation literature (Fisher and Ury, 1991; Gronroos, 2000; Morgan and Hunt, 1994; Sheth and Parvitiyar, 1995; 2000; Ury, 1993).

Beattie *et al.* (2000) argue that most research into auditor-client relationships is abstract or indirect, which draws inferences from public company information due to the difficulty of gaining access to real life information (Beattie *et al*., 2000; Dye, 1991). Kleinman and Palmon (2000) stress the need for further empirical research of the auditor-client relationship because the relationship is becoming more intensive and extensive. However, one of the challenges in studying auditor-client relationships is determining the appropriate definitions and measures of relationship constructs and variables. Therefore, there is a need to draw on a field of study that has defined and operationalized relationship variables. For this reason, we present the following relationship marketing review that provides our study with a method to define and measure a relationship between auditors and their clients. To the best of our knowledge, relationship marketing is the only field where relationships between buyers and sellers are theoretically defined and empirically studied.

Marketing

Relationship marketing is a perspective that seeks to improve the understanding of how service and product providers, clients, and other parties relate with each other, leading to various business strategies (Gronroos, 2000). The relational approach is considered by marketing scholars to be at the opposing end of the transactional approach (Dwyer *et al.,* 1987; Macneil, 1974; 1978; 1980; Paulin *et al.,* 1997; 2000; Pels *et al.,* 2000). In the relational marketing literature, clients have been found to be either more transactional or more relational (Gronroos, 1991; 1994; 1997; 2000; Gummesson, 2002; Paulin *et al.,* 1997; 2000; Pels *et al.,* 2000).

The relational approach reflects an ongoing process (Dwyer *et al.,* 1987; Morgan and Hunt 1994). It is a perspective based on interdependence rather than independence of choice and cooperation rather than competition (Sheth and Parvatiyar, 1995). Cooperation is a key antecedent to a successful long-term relationship. Cooperation promotes relationship marketing success (Morgan and Hunt, 1994). Communication is also an important element in the relational approach, where the nature of communication is from individuals to individuals (Coviello *et al.,* 1997; 2002). Communication has been shown to increase levels of trust between exchange partners (Anderson and Narus, 1990; Morgan and Hunt, 1994).

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

The relationship approaches are further conceptualized and empirically tested showing that buyers and sellers are either more transactional or more relational based on where they are positioned on a transactional-relational continuum (Dwyer *et al.,* 1987; Ferguson *et al.,* 2005; Fink *et al*., 2007; Kaufmann and Dant 1992; Paulin *et al.,* 1997; 2000; Morgan and Hunt, 1994; Rokkan and Haugland, 2000). The transactional and relational approaches are on opposite ends of a continuum, where the transactional approach is defined by the theory of opportunism, and where the relational approach is defined as a win-win, plus sum game (Gummesson, 1994; 2002; Paulin, 1997). Gummeson (2002) and Gronroos (1994; 2000) present the two approaches on a relationship continuum where the transactional approach is the 0 point, and the opposite extreme point on the continuum is the relational approach where the "…customer and a supplier are practically the same organization" (Gummeson, 2002, 17). At the 0 point, there is no relationship between the buyer and seller as it is the lowest price that connects the buyer and seller. The 0 point is theorized by micro-economic theory, where price is the only determining factor of a purchase. The 0 point can also contain a convenience factor which would put less emphasize on price (Gummeson, 2002).

The relationship marketing literature also provides us with empirical studies, based on sound conceptual frameworks with variables that define and measure the transactional and relational constructs. These frameworks have permitted researchers to determine if buyers and sellers are more relational or more transactional. Therefore, relationship marketing helps us achieve our objective which is to empirically determine if the client's preferred relationship with their auditor is more relational approach or more a transactional approach.

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

Conceptual Framework

Buyer-Seller Relationships

After an extensive review of the relationship marketing literature, to the best of our knowledge, most of the traditional buyer-seller relationships, studied in the academic marketing literature (Christopher *et al*., 1991; Dwyer *et al.,* 1987; Gronroos, 1994; 1997; 2000; Gummesson, 1994; 2002; Heide and John, 1992; Kotler, 1992; Morgan and Hunt, 1994; Sheth and Parvatiyar, 1995; 2000) are unlike the audit-client relationship. Figure 1 best represents these traditional buyer-seller relationships.
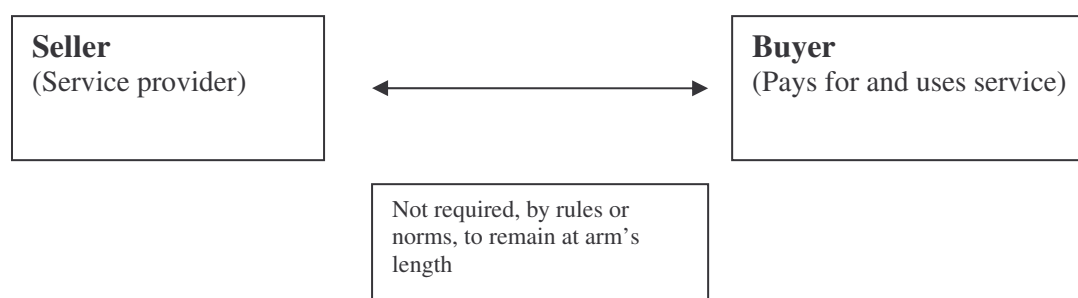

Figure 1: Buyer-seller dyadic relationships (Gummesson, 2002)

More precisely, classic market relationships are described as Business to Business (B-to-B) or Business to Customer (B-to-C), which are considered the classic dyad of marketing which

is a two-party relationship (Gummesson, 2002). For example, the relationship is between a party who sells a product or service and a party who buys and consumes directly or indirectly a product or service.

Auditor-Client Relationship

The client-auditor relationship differs from dyadic buyer-seller relationships because the client pays for the service and a third-party user consumes the service. The paying clients are not the intended user of the provided service. In addition, the auditor-client relationship is heavily regulated, where arm's length independence, professional scepticism and objectivity are required with set norms (CICA, 2006). No such regulation is present in the dyadic buyer-seller relationships described above in Figure 1.

As a foundation of our conceptual framework we present the audit-client relationship as defined in the audit standards (CICA, 2006 5025.07) (refer to Figure 2), with the objective of differentiating it from the traditional buyer-seller relationship (refer to Figure 1)
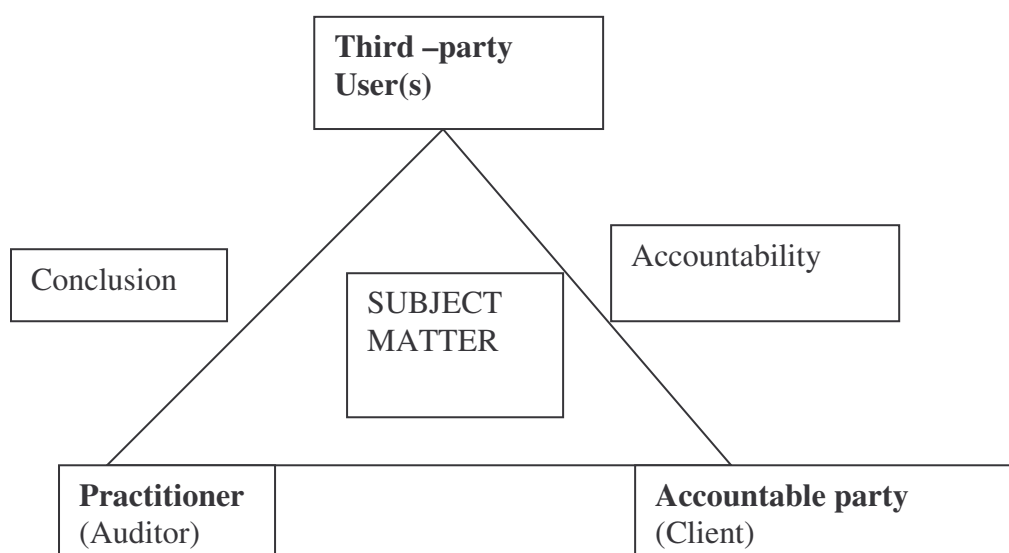

Figure 2: Three parties involved in an assurance engagement. (CICA, 2006 5025.07)

Referring to Figure 2, we base our definition of the participants in the auditor-client relationship on this CICA framework. The reason we use this framework as a basis for our

conceptual framework is that the CICA framework is a standard that applies to all Canadian accounting practitioners, performing audit services, in private and public sectors (CICA, 2006, 5025.01).

In this study, when we use the word Client we refer to the Accountable party and when we use the word Auditor we refer to the Practitioner as they are presented in this framework (CICA, 2006 5025.07). In addition to the Auditor and the Client, Figure 2 shows the presence of a User who is a third-party that could be shareholders, creditors, customers, the board of directors, the audit committee, and the legislators or regulators (CICA, 2006 5025.06). There is an accountability relationship between the Client and the User(s), where the Client is responsible to the User (s) (CICA, 2006 5025.04). It is the presence of the accountability to a third-party User that differentiates the auditor-client relationship from other traditional buyer-seller relationships presented in Figure 1.

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

Theoretical and empirical models from the relationship marketing literature show that sellers prefer a relational approach with their customers (Gronroos, 1994; 1997; 2000 Sheth and Parvatiyar, 1995; 2000). The benefits for service providers, such as auditors, to enter into a relational approach with a client are increased revenues, increased customer loyalty, and lower overall costs (Gronroos, 2000; Gummesson, 2002; Sheth and Parvitiyar, 2000). However, clients do not always prefer a relational approach with their supplier, and at times would rather remain transactional (Pels *et al*. 2000)**.**

Research, in relationship marketing, shows that clients are either transactional or relational given a specific exchange situation (Gronroos, 1991; 1997; Pels *et al.* 2000; Sheth and Parvitayar, 1995). Berry (1995) argues that the clients of services with the following characteristics will benefit from a relational approach: personally important, variable in quality, and/or complex and high involvement (e.g. medical, banking, insurance and hairstyling). The reason for this is "the heterogeneity of labour-intensive services encourages customer loyalty when excellent service is experienced" (Sheth and Parvatiyar, 2000, 153). The example of an auto repair service is given, where the client would prefer a relational approach with their auto repair service firm given the heterogeneity of the service. Also, Pels *et al.* (2000) propose a dynamic model which shows that clients each have a specific need structure and they will be in a relational mode or transactional mode based on how they perceive the service offering. If the service offering is perceived as unique, the client will prefer a relational approach with their service firm. If the service offering is perceived as generic, the client will prefer a transactional approach with their service firm (Pels *et al.*, 2000; Ravald and Gronroos, 1996). Therefore, to determine the client's relationship preference, it would be important to know how the audit client perceives the audit service, routine and generic, or unique and important.

Transactional Approach Preference

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

Goldman and Barlev (G&B) (1974) argue that the client has power over the auditor, since the audit is an easily attainable commodity and perceived as not important by the client. This perception of non-importance gives the client power. Two dimensions explain importance, in the G&B power model: 1) the nature of the problem solved and 2) the party benefiting from

the service (Figure 3). This model is also referenced by Kleinman and Palmon (2001), Beattie *et al.* (2001), Nichols and Price (1976), Green (2006) and Iyer and Rama (2004).

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

Figure 3: The Amount of Power Wielded by Professionals Vis-a-Vis Paying Clients (Goldman and Barlev, 1974, 336)

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

Marketing scholars have theorized that services that are not perceived important by the client and which are perceived as routine and commodity-like with little added value will result in the customer preferring more of a transactional approach over a relational approach (Berry, 1995; Gronroos, 1995; 2000; Gummesson, 2001; Pels *et al.,* 2000; Sheth and Parvatiyar, 2000). Therefore, if the G&B (1974) model (Figure 3) and the theory of Williamson (1975) are assumed theoretical representations of the audit service, the audit client would prefer more of a transactional approach over a relational approach, given that the audit service is considered not important and routine. However, the question whether or not the audit is perceived by clients as a routine, non-value added service can be further developed. Additional theory explains why an audit client could perceive the audit service as a value-added, important service.

Relational Approach preference

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

Empirically, Beattie *et al.* (2000) found that companies desire, from their auditor, more than auditing services, such as guidance on accounting principles, advice on internal controls and general business advice. These authors also found that when auditors did not provide enough advice, they were replaced (Beattie *et al.,* 2000). This advice is considered in the "added-value audit[3]" (Beattie *et al.,* 2000). Audit regulations recommend that the auditor's main objective, when conducting an audit, is to provide an opinion on the financial statements taken as a whole (CICA 2006 5750.03). However, while the auditor is conducting the audit, the auditor "may identify certain matters that may be of interest to management" (CICA 2006 5750.03).

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

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

The added-value audit, which is a by-product of the audit, yet not an additional billable service, is an important element of the relational approach (Gronroos, 1991; 1997; Ravald and Gronroos, 1996). In the transactional approach, the customer sees value as a basic exchange of the core product or service for money (Gronroos, 1997; 2000). The value-added component of the audit has been shown to be important for the client (Beattie *et al*., 2000), and the value-added information is a key component of the relational approach. Therefore, the added-value source of support and advice adds to the argument of why the audit would be perceived as a non-routine and important service by the audit client.

Hypothesis Development

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

To answer this question we borrow relationship marketing variables to help justify whether the client would prefer more of a relational approach or more of a transactional approach. The power model, based on resource dependency theory and conceptualized by Goldman and Barlev (1974), shows how the audit client considers the audit service as unimportant resulting in an asymmetrical power relationship in favour of the client. In addition, Williamson (1975), based on Transaction Cost Analysis (TCA), argues that clients consider the auditor as an outsider, which does not encourage client cooperation.

Additional theory shows that the audit client desires additional information, which is included in the new value-added audit. The value-added audit is not billable consulting services but rather knowledge gathered during the audit that can help the client (Beattie *et al.,* 2000).

Shared knowledge is an important component of the relational approach (Gronroos 2000; 1997).

Given the existence of conflicting theory, which could either describe the audit service as an important, value-added service, or as a non-value added commodity, we argue that there is more convincing theory leading towards the perception of the audit service as important and value-added. Even though the audit service does not provide a direct benefit to the paying client, the client does benefit from other additional advice offered by the auditor. Therefore, if the client perceives the audit service as important and value-added, according to relationship marketing, the client would prefer a more relational approach than transactional approach with their auditor.

H1: *The audit client will prefer more a relational approach over a transactional approach with their auditor.*

Method

Our research is designed as a survey, which is an appropriate method to collect original data and for measuring attitudes and orientations (Babbie and Benaquisto, 2002; Isaac and Michael, 1995). After an extensive literature review, we chose the survey measurement instrument used by Kaufmann and Dant (1992). The Kaufmann and Dant (1992) model is appropriate for two reasons: it is an instrument that applies to both buyers and sellers, and the measurement scales are not industry specific (Kaufmann and Dant, 1992; Paulin *et al.,* 1997). For example, Kaufmann and Dant (1992) surveyed a convenience sample of 106 sales and purchasing personnel chosen from executive seminars. Each participant completed a questionnaire by referencing one focal relationship across different industry sectors. Their study was not industry specific and their results supported the use of industry non-specific dimensions to describe both buyer and seller relationships (Kaufmann and Dant, 1992; Paulin *et al.,* 1997). Consequently, the Kaufman and Dant (1992) measurement instrument is appropriate for our study, since it can apply to various industries such as the audit industry and apply to the client (buyer) of audit services.

The dimensions that Kaufmann and Dant (1992) operationalize are derived from Macneil's (1980) common contract norms, and these norms have been the theoretical foundation used to determine whether a relationship is more transactional versus more relational (Heide, 1994; Macneil, 1980; Kaufmann and Stern, 1988; Rokkan and Haugland, 2000). Transactional and relational constructs are considered opposite poles on a continuum (Dwyer *et al.,* 1987; Fink *et al.,* 2007; Kaufmann and Dant, 1992; Macneil, 1974; 1978; 1980; Rokkan and Haugland, 2000). Nevin (1995) considers that this model provides the most comprehensive conceptual context for understanding business-to-business relationships.

The contractual dimensions (Kaufmann and Dant, 1992) are described as follows: Relational Focus, Solidarity, Restraint, Role Integrity, Flexibility, Mutuality (further described in Appendix 1). Twenty individual items are derived from these six dimensions. The twenty items correspond to twenty questions we use in our questionnaire in order to determine the client's preferred relational approach. Each item (question) is defined in our questionnaire (refer to Appendix 2).

Since the objective of our study is to determine if audit clients prefer more of a relational or transactional approach, we determine a single mean score from the twenty items. More precisely, the twenty items in our questionnaire need to meet the conditions of a summated scale, one of which is the unidimensionality of the items (which would mean that the twenty items and six dimensions are derived from a higher-order factor). We argue that the twenty items are derived from the six dimensions which in turn are derived from a single, higher order construct referred to as relationalism[4]. Relationlism, as a higher order construct, is tested statistically for unidimensionality in the following section (Findings) using Structural Equation Modeling (SEM). In addition to unidimensionality, we test for other conditions for a summated scale such as reliability and validity.

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[4] Relationlism is used in other studies and is used in our study to determine a RA or TA. Low Relationlism is a TA (also known as a discrete transaction) and high Relationlism is a RA (Fink *et al.,* 2007; Macneil, 1980; 1978; 1974; Paulin *et al*., 2000; 1997; Rokkan and Haugland, 2000).

Data Collected

We mailed 1090 questionnaires across Canada at the end of November 2008. We received 306 completed questionnaires. Since 100 questionnaires were sent back unopened due to wrong addresses, our response rate is 30,91% (306 / (1090-100)). Other similar survey studies have similar response rates that were considered satisfactory levels. Fink *et al.* (2007) uses the same relational measurement instrument as the one used in the present research. In a mail survey, they received 372 completed questionnaires for a response rate of 32,00%. We conservatively predicted a response rate of 18,00% which was based on a similar study (Iyer and Rama, 2004), where questionnaires were sent to the CFOs of private companies. Since our study was also a mail survey sent to CFOs of private companies based on a membership list we consider our 30,91% response rate to be very good.

In addition to the twenty questions used to measure the relational approach preferences construct (Relationism, Relpref[5]) (refer to Appendix 2) seven questions were used to collect Personal and Corporate Information (refer to Appendix 3). None of the corporate or personal information had any significant influence on the 20 items used to measure relationship marketing variables. Therefore, there was no need to control for the corporate or personal information variables.

Findings

Summated Scale

Even though our measurement instrument was conceptualized as a multidimensional measure, it was operationalized as a unidimensional, summated scale. The scale dimensions were summated into a single mean score, enabling researchers to determine a level of relationlism: high scores determined a relational approach (RA) (also referred to as relational or high relationalism) and low scores determined a transactional approach (TA) (also referred to as discrete or low relationalism) (Ferguson *et al.,* 2005; Fink *et al.,* 2007; Heide, 1994; Heide and John, 1992; Paulin *et al.,* 1997; 2000; Rokkan *et al.,* 2003). In all of these studies, the multiple dimensions were compressed into a single construct (relationalism). This single construct was theoretically justified by the work of Macneil (1980) and was statistically justified using Confirmatory Factor Analysis. Even though these previously mentioned

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

studies show theoretical and statistical justification for summing their multi-item scales into a single score, we tested our variables to meet the four conditions for a summated scale suggested by Hair *et al.* (2006):

1) The items in the summated scale need theoretical justification (p. 139).
2) The summated scale needs to be assessed for unidimensionality by exploratory or confirmatory factory analysis (p. 139). (Item analysis is also recommended to determine unidimensionality, Churchill (1979), Hoyle *et al.*(2002), Noordewier *et al.*(1990).
3) The reliability of the scale needs to be assessed (p. 139).
4) Validity should be assessed (p. 139).

The first condition of theoretical justification is met as the 20 questions (items) to measure the client's preferred relationship approach are derived from six dimensions based on the conceptual framework of Macneil (1980) and further conceptualized and empirically tested in published research, in the above-mentioned literature.

To test the second condition for a summated scale, we assessed the unidimentionality by first conducting an item analysis of the twenty relational items. We test the correlations of the individual items with the total score (corrected item-total corr.) (refer to Appendix 4). Among the twenty items, eighteen are positively correlated, while one item approaches 0 (solpref3 item to total corr. = 0,0085), and one item is negatively correlated (mutpref3 item to total corr. = -0,0539).

Removing the variables that approach 0, or negatively correlated, increases the reliability of a scale (Churchill, 1979). In addition to the quantitative reasons for removing solpref3 and mutpref3, we also provide contextual justification for their removal. The solpref3 item measures the client's preference for an arm's length relationship. This is a reverse item; high scores represent a transactional preference and low scores represent a relational preference. An arm's length relationship, in the relational marketing literature, is when there is a transactional relationship between buyers and sellers (Gronroos, 1991; 1994). However, auditors have the responsibility of maintaining a certain level of independence with their client, and the client is encouraged by the auditor to respect this responsibility (CICA, 2006). Therefore, it is contextually and statistically justified that a low score for this arm length item

is not necessarily indicative of a transactional preference but rather a unique characteristic of the client-audit relationship. Accordingly, we will remove this item from the scale.

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

After dropping 2 items (solpref3 and mutpref3) we conduct Confirmatory Factor Analysis with 18 items and 6 dimensions. A similar approach was used by Noordewier *et al.* (1990) who modeled their relational items using a second-order factor model, arguing that relational factors arise from a single second-order factor (Relationlism). After running a second-order factor analysis using the CALIS procedure in SAS we drop the Mutuality dimension (which includes two items) due to a negative eigen value for this dimension. We are then left with 16 items and 5 dimensions. The second-order model results show a reasonable fit (GFI = 0.93, AGFI = 0,90) (refer to Appendix 5.) Moreover, the higher order model shows reasonable Reliability of 0,75 based on Joreskog's formula (Roussel *et al*., 2002) . Consequently, we conclude that our measure meets the requirements of unidimensionality (Hair *et al.*'s 2006*,* second condition for a summated scale). Reliability was Hair *et al.*'s (2006) third condition for a summated scale.

We further test Hair *et al.* (2006)'s fourth condition which is to assure the Validity (convergent and nomological) of the Higher (Second-Order) model. Factor Loadings, Variance Extracted and Reliability are all indicators of Convergent Validity. Among the 5 Factor Loadings of the Higher order construct, 4 are over 0,5 (refer to Appendix 5), which is considered a good rule of thumb (Hair *et al*., 2006). The Variance Extracted of the second

order model is close to 0,5 (0,4633, to be exact) which is considered adequate convergence (Hair *et al*., 2006). Therefore, due to the result of Factor Loadings, VE and Reliability we confirm convergent validity.

In addition, we further test for the nomological validity of our relationship preference construct. Nomological validity determines if a measure represents what it should measure, based on prior theory, or prior empirical research (Hair *et al*., 2006.). The items, making up our Relational Preference measure, are derived from dimensions theoretically developed by Macneil (1974; 1978; 1980; 1981; 1983). Macneil's (1974; 1978; 1980; 1981; 1983) relational dimensions have been conceptualized to move in the same direction (correlated). Therefore, we test our five dimensions (Solidarity, Role, Focus, Power, and Flexibility) from which our individual items are derived. The results are presented in Appendix 6. Using the Pearson Correlation, the matrix shows that most of the dimensions are significantly correlated. Out of 10 possible different associations, only 2 are not significantly correlated (FOCPREF-POWPREF, FLEFPREF-POWPREF). Kaufman and Dant (1992) had similar results with dimension correlations. The authors claim the correlations support Macneil's (1980) Relational Exchange Theory. Therefore, we confirm that the items we use to measure relational preference show strong nomological validity.

Therefore with our theoretical justification, unidimensionality, reliability and validity confirmed we meet the four conditions for a summated scale highlighted by Hair *et al*. (2006). The summated single mean score of our 16 items is 1119,03 (Relpref) on a scale of 0-1585 (refer to Appendix 7).

Hypothesis validation

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

The scale used for the relational preference items has a range of 0 (transactional) to 1585 (relational), with a midpoint of 792,50. Therefore, for levels significantly greater than the 792,50 mid-point we conclude that the audit client's preference is more relational than transactional. For levels significantly less than the 792,50 midpoint we conclude that the audit client's preference is more transactional than relational. Other similar studies used scale midpoints as a point of reference for determining relational (high relationalism) or transactional relationships (low relationalism) (Paulin *et al.,* 1997; 2000).

For the 306 participants, the single mean Relational Preference (relpref) score is 1119,03 (on a scale of 0-1585). The minimum mean score is 807,01 and the maximum mean score is 1389,26 (refer to Appendix 7). Therefore, with a midpoint of 792,50 units and a mean score of 1119,03, we conduct a parametric paired-sample T-test to see if there is a significant difference between the mean single score and the midpoint on our relational scale. The results of the test show that the Relational Preference mean score (1119,03) is significantly higher than the midpoint (792,50) (t = - 34,526, p = 0,000).

We also conduct the non-parametric equivalent of the Paired Samples T-test using the Wilcoxon signed-rank test (SPSS). For 295 participants (out of a total of 306) the relational preference mean score exceeded the relational preference midpoint (relpref > prefmid); and for 11 participants the relational preference mean score was below the relational preference (relpref < prefmid). The results of the Wilcoxon signed-rank shows that the Relational Preference variable (relpref) is significantly higher than the scale midpoint (relmid) (Z= -14,994, p = 0,000). The parametric and non-parametric tests show the audit client significantly prefers a more relational than transactional approach with their auditor. Therefore, the main hypothesis (H1) is supported.

To understand further the clients' preferences for the relational approach we test the 16 individual factors of our Relational Preference variable (relpref) to identify the different levels of each factor and to see if all factors are statistically different from the scale midpoint (relmid). The Paired Sample Tests of the 16 items that make up the overall Relational Preference variable show factors that are statistically different from the midpoint. Of the 16

factors, only three factors are not significantly different from the midpoint (focpref2, t = 1,766, p = 0,078) (focpref3, t = 0,589, p = 0,556) (rolpref3, t = 1,283, p = 0,200) (refer to Appendix 8). The remaining 13 items are significantly higher than the midpoint, all p = 0,000. These three factors, which are not significantly different from the scale midpoint will be discussed in the following section (Discussion).

In addition, the scale mean of each of the 16 items along with a brief characteristic definition of each factor is presented in Appendix 7. The individual factors, which warrant further discussion, will be done so in the following section (Discussion). The individual item, solpref3 (Arm's Length), was dropped from the single mean score because it did meet the correlation requirements for a summated scale, as presented earlier. However, since the results of this item are relevant to the audit industry, we test its statistical significance in respect to the scale midpoint. The results show that the item, solpref3, has a mean score of 246,37, which is significantly lower than the scale midpoint (792,50) (t = -28,564, p = 0,000). The results of solpref3 will be discussed further in the following section (Discussion).

Discussion

The results of our study show that clients have a preference for a relational approach over a transactional approach with their auditor, providing indirect evidence of the importance of the audit service, as perceived by the customer. The preferred relational approach average score (relpref), made up of 16 individual items, is 1119,03, significantly higher than the scale midpoint (792,50). To add to the understanding of the general results of the relational preference single mean score (1119,03), the results of the individual items provide interesting insight.

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

argue that the audit service is important to the client and that they would prefer a relational approach. Our argument is based on the theory of added-value service (Beattie *et al.*, 2000; Gronroos, 1997). The results support our conceptual framework. The client sees the auditor as a source of information (solpref1 = 1238,24), and has expectations from auditors that go beyond the audit services (rolpref1 = 1111,93). Our results are consistent with Beattie *et al.* (2000) and Eilifsen *et al.* (2001) who argue that the value of the auditor is the added-value service beyond the core audit service, which results in cooperative efforts from the customer. Beattie *et al.* (2000) found that clients desire, from their auditors, such services as guidance on accounting principles, advice on internal controls, and general business advice.

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

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

In addition to the audit client's Relationship Focus, client cooperation is important. Cooperation between buyers and sellers has been referred to as a core value of Relationship Marketing (Gummesson, 2002; Morgan and Hunt, 1994). The client's desire to cooperate with their auditor is an important element in the audit process, primarily due to information asymmetry in favour of the client. The client has information that the auditor requires to complete the audit (Ruypter and Wetzels, 1999; Kopp *et al.,* 2003). Cooperation was measured with the item, solpref6, where we asked the audit client for their preference for a cooperative effort. We defined a cooperative effort as "wanting or willing to work together with others". The cooperation score (solpref6 = 1298,53) was significantly higher than the midpoint (relmid = 792,5) and significantly higher than the Relational Preference average single score (relpref = 1119, 03).

Surprisingly, clients also desire to remain at arm's length with their financial auditor with the solpref3 item being significantly lower than the scale midpoint (solpref3 = 246,37). We defined the arm's length item (solpref3) in our questionnaire as "relating in such a way as to avoid familiarity and prevent direct influence by any of the parties over the other or others." (refer to Appendix 2). No documented marketing relationship, to our knowledge, models a buyer-seller relationship where variables such as cooperation and arm's length co-exist. When a buyer and seller are at arm's length the relationship is transactional; whereas, when a buyer and seller are cooperative (opposing end of the continuum) the relationship is relational (Dwyer *et al.,* 1987; Ferguson *et al*., 2005; Gronroos, 2000; Gummeson, 2002). Our auditor-client triadic relationship (given the presence of a third-party user) introduces to the marketing literature an original conceptual framework. No buyer-seller relationship, to our knowledge, is Relational (RA), with the presence of cooperation, trust, and the willingness to continue, and at the same time conducted at arm's length (refer to Appendix 9).

Managerial implications

This study has important implications for marketing managers. We provide evidence that a relationship can be relational (supported with relational variables such as cooperation, trust, information sharing and power restraint), yet at the same time remain at a certain distance (at arm's length).

In popular terms, relationship marketing by service or product providers is often referred to as getting close as possible to customers. Becoming friendly and engaging in activities such lunches and golf are used to reinforce relationships. Typically, sales professionals and extroverted personalities portray the personality type that is used by companies to establish relationships with their customers. However, as our model shows, customers could desire many important relational components yet prefer to maintain a certain distance with the service provider: maintaining a professional business relationship but avoiding a compromising friendship (by remaining at arm's length).

In addition, what clients want from their auditor in terms of relationships offers evidence that establishing and maintaining relationships goes beyond friendly activities. More precisely, the results of our study provides evidence that clients want business reasons to stay close such as cooperation, the sharing of information, and trust.

The results of our study could encourage Marketing managers to invest in specific relationship marketing activities such as value added information sessions to inform customers and other client activities to demonstrate cooperation and build trust rather than investing in business lunches or golf events (unless the time is spent on business issues). Also, it may not be necessary to use only extraverted sales and marketing professionals to build relationships with clients, but also technical or operational experts that can build credible trust with clients and provide valuable information.

Limitations

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

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

The multi-items used to measure the client's relational preference that we borrowed from the marketing studies mentioned above, had to be slightly modified following our two pre-tests. In our first test, we used 24 questions with the exact wording of our borrowed items. The pre-test candidates found some of the questions confusing and found our questionnaire too long. We were concerned about the clarity and length of the questionnaire, which has been shown to reduce response rates (Dillman, 2006).

When sensitive questions are asked, there is always the risk of Social Desirability Bias (SDB). SDB is possible when a respondent wants to appear favourable when asked a sensitive question (Bradburn *et al.,* 2004). There is no empirical evidence to indicate that audit clients would prefer appearing more relational than more transactional. However, it could be argued that it is more fashionable to appear relational than transactional given the relational definitions are more indicative of a sociable person (Dwyer *et al.*, 1987). Similarly, it could be argued that it was socially desirable for the respondents to say they desired an Arm's Length relationship because it is a popular topic in the accounting industry that the auditor and client need to remain independent and not too familiar (CICA, 2006). However, we did take proven measures to reduce the risk of SDB (Dillman, 2006). We asked more than one question for a particular dimension (topic). We also sent the questionnaires by mail and assured the clients that their responses were confidential. Our survey method did not give us the name of the respondent and the respondent was made clear of the measure. Notwithstanding our efforts to reduce SDB there is no full proof method to do so.

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

Future research

We asked respondents questions about their relationships with their auditors at one period in time. However, relationships have been conceptualized as moving through different stages that are different in short term and long-term periods (Dwyer *et al.,* 1987; Morgan and Hunt 1994). A longitudinal study should be performed which would ask respondents about their relationship with their auditor at different interval periods. This would allow to measure differences due to the evolution of the relationship.

Given the various definitions and variables of relationships that exist in the relationship marketing literature it would important to replicate this research in the audit industry to see if the multi-item measures could give similar results. This replication study would also help us

see if the measures that we borrowed from different industries are applicable in the audit industry.

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

It would be important to continue a study that would measure the relationship preferences between the auditor and the client but from the perspective of the third party user. In the case of private companies, the third-party user would most likely be the bank or other creditors. Since the third-party user is the ultimate user of the audit, and who can influence regulations, it would be interesting to see if the third party user would prefer a transactional or relational approach between auditors and their clients.

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

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

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Appendix 1

Transactional Approach and Relational Approach Dimensions (Kaufmann and Dant, 1992)

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

Appendix 2

RELATONAL PREFERENCE QUESTIONNAIRE

FOCPREF1
1. The relationship with my auditor plays a more important role than the audit service.
   (By **relationship with my auditor** we mean any interactions with your auditor, including business and/or non-business dealings).

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100

|————————|————————|————————|————————|
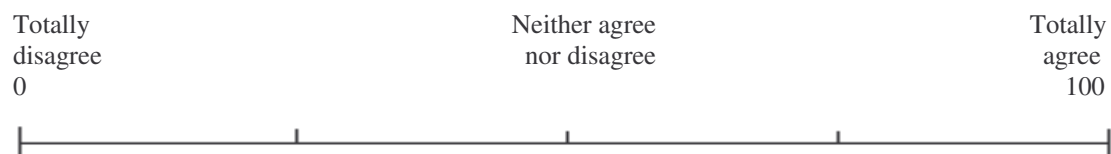
FOCPREF2
2. The relationship with my auditor is only important if I am satisfied with the audit service.

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100

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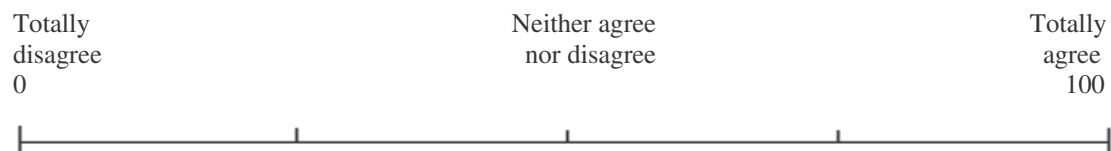
FOCPREF3
3. The relationship with my auditor is only important to the extent that it facilitates the audit service.

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100

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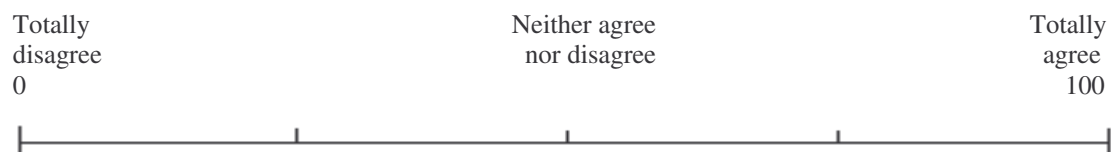
SOLPREF1
4. If my auditor has information which could help our organization in the production or distribution of our product or service, he or she provides that information.

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100

|————————|————————|————————|————————|
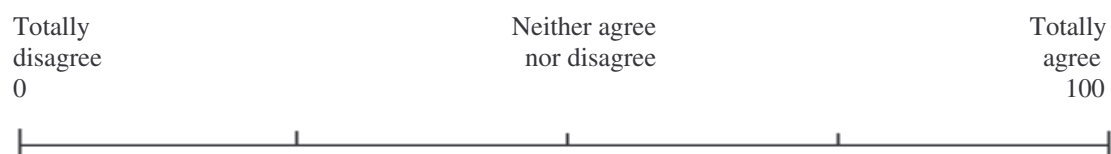
SOLPREF2
5. There is a very high level of trust between my auditor and me.

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100

|————————|————————|————————|————————|
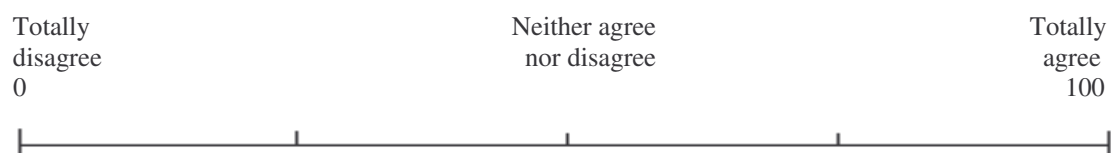
SOLPREF3
6. The relationship with my auditor could be described as "arms length".
(**arms length** is defined as: *relating in such a way as to avoid familiarity and prevent direct influence by any of the parties over the other or others*).

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
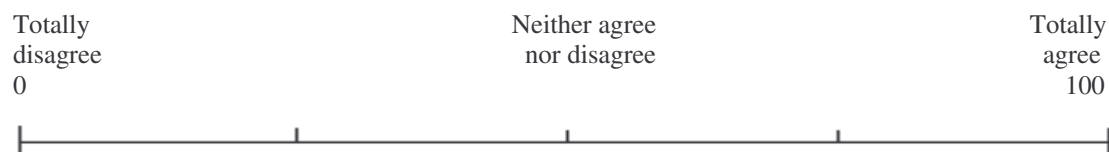
SOLPREF4
7. The relationship with my auditor is a "long-term venture".
(**long-term** is defined as: *lasting or intended to last for a long time*)

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
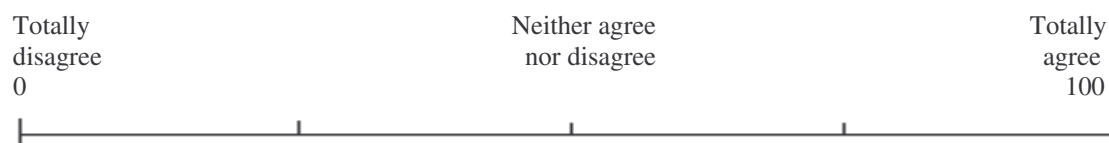
SOLPREF5
8. The relationship with my auditor is a series of one shot dealings.
(**one-shot** is defined as: *Informal being the only one, not part of a series*)

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
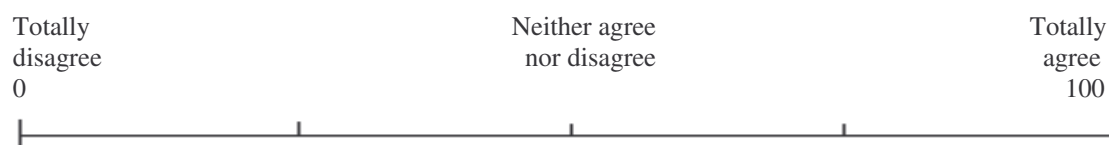
SOLPREF6
9. The relationship with my auditor could be described as a "cooperative effort".
(**cooperative** is defined as: *Wanting or willing to work together with others*)

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
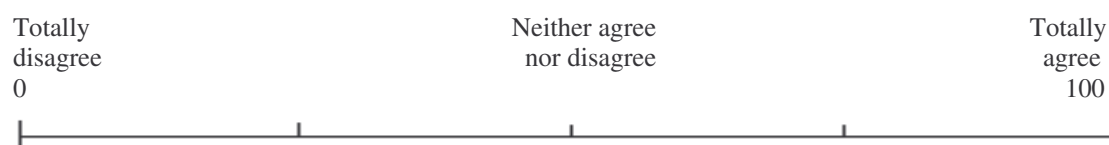
POWPREF1
10. I rarely use pressure tactics to influence my auditor.
(As an example, a client could **influence** their audit on issues regarding audit fees, financial statement issues, etc.)

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
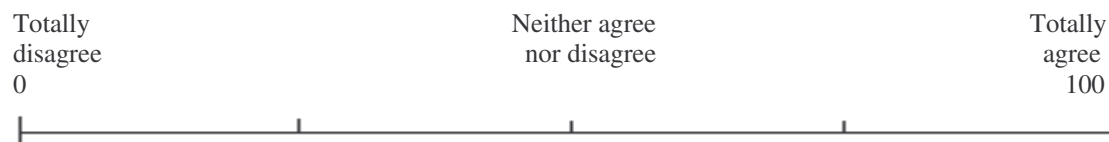
POWPREF2

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

Totally   Neither agree   Totally
disagree   nor disagree   agree
0   100

├────────────────┼────────────────┼────────────────┤

ROLPREF1

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

Totally   Neither agree   Totally
disagree   nor disagree   agree
0   100

├────────────────┼────────────────┼────────────────┤
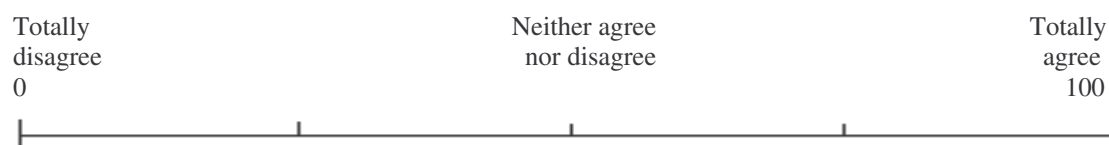
ROLPREF2

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

Totally   Neither agree   Totally
disagree   nor disagree   agree
0   100

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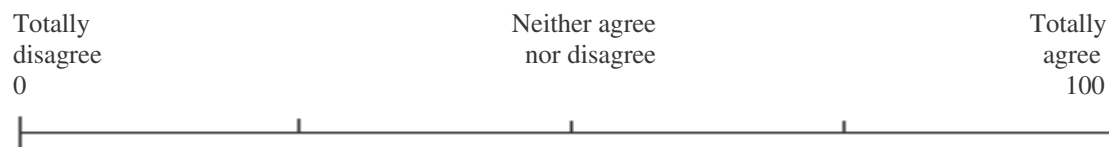
ROLPREF3

14. The only expectation I have concerning the behaviour of my auditor is that he or she provide the agreed upon audit service.
 (the **agreed upon audit service** means the quantity and quality of audit service for the agreed price and timeframe.)

Totally   Neither agree   Totally
disagree   nor disagree   agree
0   100

├────────────────┼────────────────┼────────────────┤
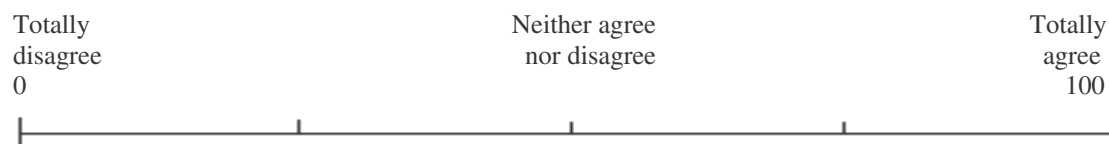
FLEPREF1

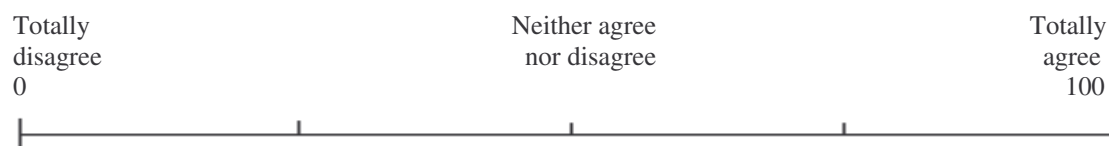**15.** When circumstances change, my auditor and I can easily make modifications to our agreement.
(by **agreement** we mean any predetermined terms agreed upon, either formally with an engagement letter, or an informal agreement understood by both parties)

Totally   Neither agree   Totally
disagree   nor disagree   agree
0   100

├────────────────┼────────────────┼────────────────┤
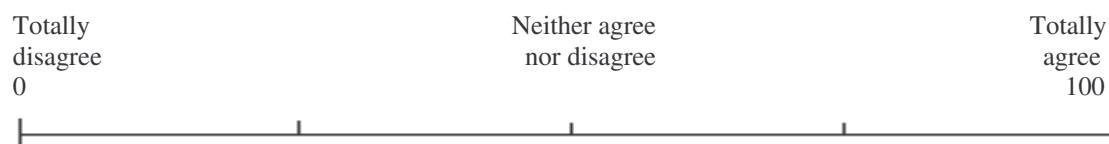
FLEPREF2

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

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
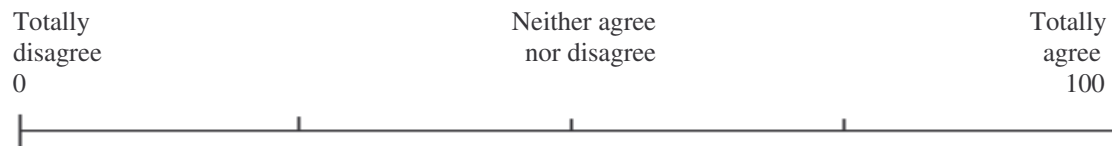
FLEPREF3

17. There is a give and take on specifics of the audit service if business conditions change.
(examples of **a give and take on specifics of the audit service** could be related to audit service pricing or also related to financial statement issues).

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
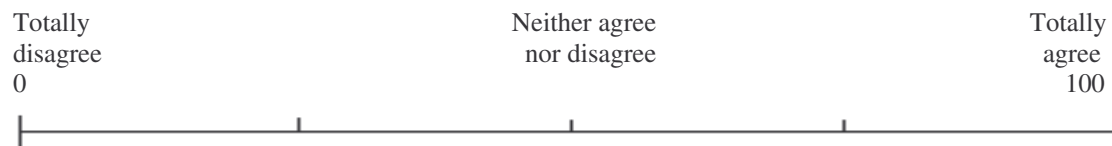
MUTPREF1

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

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
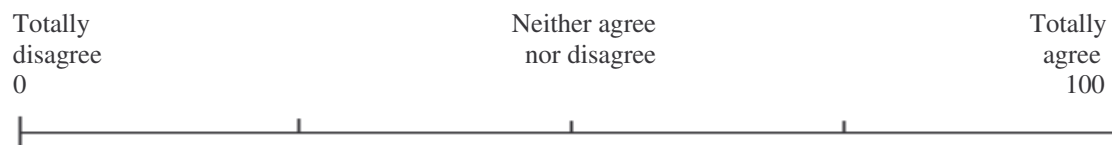
MUTPREF2

19. If costs and benefits are not evenly shared between my auditor and me, in a given time period, they balance out over time.

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
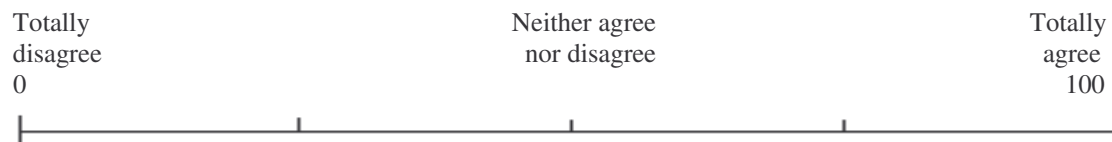
MUTPREF3

20. I monitor my auditor closely to ensure my auditor meets my expectations.

Totally	Neither agree	Totally
disagree	nor disagree	agree
0		100
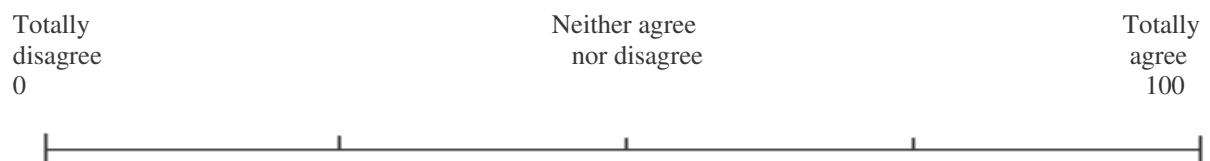
Appendix 3

PERSONAL AND CORPORATE INFORMATION

1. Gender: _____ Male _____Female

2. Number of years of experience in your actual position: _____

3. Number of years of experience in your area of work: _____

4. Name of your present audit firm: _____

5. Length of time you have been doing business with your audit firm: _____

6. Indicate the services provided to your organization by your present audit firm:

_____Audit services

_____Review Engagement

_____Notice to Reader

7. Of the total annual fees paid to your audit firm, approximately, what percentage of the total payment (100%) is for:

Audit or Review Engagement services _____%

 Other billable services _____%

If applicable please specify the name of the other billable services:

_____

_____

Appendix 4

Relationship Preference (20 items)

Item	Characteristic	Valid N	Scale Range	Scale Mean	Corrected Item-total corr.[6]	Standardized Apha[7]
Focpref 1	Audit service	306	0-1585	961,39	0,3346	
Focpref2	Audit service	306	0-1585	836,47	0,1393	
Focpref3	Audit service	306	0-1585	807,01	0,4162	
Solpref1	Information sharing	306	0-1585	1238,24	0,2985	
Solpref2	Trust	306	0-1585	1389,26	0,3081	
Solpref3	***Arm's Length.***	**306**	**0-1585**	**246,37**	**0,0085**	
Solpref4	Long-term relationship	306	0-1585	1231,44	0,3847	
Solpref5	Not one-shot dealings	306	0-1585	1291,60	0,2786	
Solpref6	Cooperation	306	0-1585	1298,53	0,1950	
Powpref1	Pressure tactics	306	0-1585	1255,21	0,2095	
Powpref2	Pressure tactics	306	0-1585	1087,68	0,0982	
Rolpref1	Expectations beyond audit	306	0-1585	1111,93	0,4561	
Rolpref2	Non-audit issues	306	0-1585	1055,64	0,4996	
Rolpref3	Expectations audit service	306	0-1585	830,52	0,4331	
Flepref1	Modifications	306	0-1585	1244,93	0,3728	
Flepref2	Renegotiable	306	0-1585	1132,58	0,1731	
Flepref3	Give and take	306	0-1585	1131,99	0,2251	
Mutpref1	Help my auditor	306	0-1585	970,39	0,1835	
Mutpref2	Costs and benefits	306	0-1585	1076,29	0,2026	
Mutpref3	Monitoring	**306**	**0-1585**	**549,44**	**-0,0539**	
Relpre20		**306**	**0-1585**	**1037,35**[8]		**0,6851**

---

[6] SPSS uses four decimal points for the Corrected Item- total corr. scores.
[7] We use the standardized alpha since our item scores are summed to form a scale score (Cortina, 1993).
[8] This score is a mean of the 20 variables.

Appendix 5

Analysis with the procedure CALIS from SAS (9.2).

Standardized Maximum Likelihood Estimates[a]

Indicator	Focus	Solidarity	Power	Role	Flexibility
First-Order Loadings (λ_{ij})					
Focpref1	.385[b]				
Focpref2	.357 (4.5)				
Focpref3	.906 (3.5)				
Solpref1		.419[b]			
Solpref2		.491 (4.8)			
Solpref4		.498 (4.8)			
Solpref5		.352 (4.0)			
Solpref6		.304 (3.6)			
Powpref1			.489[b]		
Powprf2			.346 (3.0)		
Rolpref1				.778[b]	
Rolpref2				.824 (10.5)	
Rolpref3				.511 (8.0)	
Flepref1					.737[b]
Flepref2					.218 (2.7)
Flepref3					.431 (4.2)
Second-Order Loadings (γ_{ik})					
First-Order construct					
Focus		.385 (3.0)			
Solidarity		.921 (5.6)			
Power		.705 (5.0)			
Role		.637 (7.5)			
Flexibility		.645 (6.9)			

Goodnest-of-Fit Statistics

χ^2 (99 d.f.)	= 199.5	$p < .05$
GFI	= .93	
AGFI	= .90	
RMS residual	= .06	
NNFI Bentler and Bonnet	= .81	
NFI Bentler and Bonnet	= .74	

Reliability	= .75

[a] t-values are in parentheses.
[b] Fixed parameter

Appendix 6

Dimension Correlations

		SOLPREF	ROLPREF	FOCPREF	POWPREF	FLEPREF
SOLPREF	Pearson Correlation	1	0,358(**)	0,204(**)	0,255(**)	0,329(**)
	Sig. (2-tailed)		0,000	0,000	0,000	0,000
	N	306	306	306	306	306
ROLPREF	Pearson Correlation	0,358(**)	1	0,335(**)	0,194(**)	0,217(**)
	Sig. (2-tailed)	0,000		0,000	0,001	0,000
	N	306	306	306	306	306
FOCPREF	Pearson Correlation	0,204(**)	0,335(**)	1	0,065	0,120(*)
	Sig. (2-tailed)	0,000	0,000		0,260	0,036
	N	306	306	306	306	306
POWPREF	Pearson Correlation	0,255(**)	0,194(**)	0,065	1	0,096
	Sig. (2-tailed)	0,000	0,001	0,260		0,094
	N	306	306	306	306	306
FLEPREF	Pearson Correlation	0,329(**)	0,217(**)	0,120(*)	0,096	1
	Sig. (2-tailed)	0,000	0,000	0,036	0,094	
	N	306	306	306	306	306

Appendix 7

Relational Preference (16 item score)

Variable (item)	Valid N	Scale Range	Scale Mean	Characteristic	Result
Focpref 1	306	0-1585	961,39	Audit service	Significantly higher than midpoint
Focpref2	306	0-1585	836,47	Audit service	**Not significantly higher than midpoint**
Focpref3	306	0-1585	807,01	Audit service	**Not significantly higher than midpoint**
Solpref1	306	0-1585	1238,24	Information sharing	Significantly higher than midpoint
Solpref2	306	0-1585	1389,26	Trust	Significantly higher than midpoint
Solpref3	*306*	*0-1585*	*246,37[9]*	*Arm's Length.*	*Significantly lower than midpoint. Not retained in overall score because of low correlation*
Solpref4	306	0-1585	1231,44	Long-term relationship	Significantly higher than midpoint
Solpref5	306	0-1585	1291,60	Not one-shot dealings	Significantly higher than midpoint
Solpref6	306	0-1585	1298,53	Cooperation	Significantly higher than midpoint
Powpref1	306	0-1585	1255,21	Pressure tactics	Significantly higher than midpoint
Powpref2	306	0-1585	1087,68	Pressure tactics	Significantly higher than midpoint
Rolpref1	306	0-1585	1111,93	Expectations beyond audit	Significantly higher than midpoint
Rolpref2	306	0-1585	1055,64	Non-audit issues	Significantly higher than midpoint
Rolpref3	306	0-1585	830,52	Expectations audit service	**Not significantly higher than midpoint**
Flepref1	306	0-1585	1244,93	Modifications	Significantly higher than midpoint
Flepref2	306	0-1585	1132,58	Renegotiable	Significantly higher than midpoint
Flepref3	306	0-1585	1131,99	Give and take	Significantly higher than midpoint
Relpref	**306**	**0-1585**	**1119,03**		

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

Appendix 8

Paired Samples Test (16 Items versus Midpoint)

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

Appendix 9

| Final Conceptual Model: The client's preferred relational approach |

Third-Party
Users

Auditor

Client

Primary Hypothesis: (Relational Preference)

H1: *The audit client will prefer a RA over a TA with their auditor.* **SUPPORTED**
Relpref=1119,03>792,50 (t = -35,297, p=0,000)

	Sign	**Characteristic**
Focpref1= 961,39	YES	SERVICE
Focpref2= 836,47	NO	SERVICE
Focpref3= 807,01	NO	SERVICE
Solpref1= 1238,24	YES	INFORMATION
Solpref2= 1389,26	YES	TRUST
Solpref4= 1231,44	YES	LONG-TERM
Solpref5= 1291,60	YES	NOT ONE-SHOT
Solpref6= 1298,53	YES	COOPERATION
Powpref1= 1255,21	YES	PRESSURE
Powpref2= 1087,68	YES	PRESSURE
Rolpref1= 1111,93	YES	BEYOND AUDIT
Rolpref2= 1055,64	YES	NON-AUDIT
Rolpref3= 830,52	NO	EXPECTATIONS
Flepref1= 1244,93	YES	MODIFICATIONS
Flepref2= 1132,58	YES	RENEGOTIABLE
Flepref3= 1131,99	YES	GIVE AND TAKE

TOTAL MEAN SCORE = 1119,03

Arm's Length Variable
Solpref3=274,46
Significantly lower than midpoint
Indicates client's preference to remain at Arm's Length

Relational Theory
Added-Value audit