

Contextual factors, obedience pressure and accounting decision-making

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ABSTRACT

This paper discusses the factors that affect accountants' (and auditors') susceptibility to obedience pressure in the workplace. Succumbing to superior obedience pressure impacts an accountant's ability to maintain their independence when exercising their professional judgment. The presence of such pressure could lead to dysfunctional behavior. However, accountants' reactions to obedience pressure vary according to several factors. The current literature has investigated the individual-related factors effect such as personality, commitment, and gender. Referring to transactional process theory, this paper discusses the effects of contractual factors in addition to the effects of individual-related factors. The contractual factors can assume several forms including the magnitude of the amount of the issue, the sensitivity of the issue, explicit conflict with laws and regulations and professional standards, and possibility of disclosure. The model discussed in this paper has an application for future studies to include the effects of contractual factors in studies of obedience pressure on accountants and auditors. Application of the model by practitioners is also discussed to better understand how accountants' and auditors' reactions to obedience pressure are formed. Such understanding could be beneficial to minimize the cost of accountants' and auditors' dysfunctional behavior that could arise from obedience pressure.

Keywords: obedience pressure, contextual factors, accounting decision-making, accountants, auditors.

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INTRODUCTION

Accountants' (and auditors') independence to employ their professional judgment is crucial as their expertise. Obedience pressure comes into play when accountants are under pressure from their superiors to adversely alter their professional judgment, which could lead to dysfunctional performance and negative outcomes. Behavioral accounting studies have widely reported evidence of obedience pressure on accountants in the workplace, skewing their professional judgment. Davis, DeZoort, and Kopp (2006) found that management accountants are more probable to engage in the budgetary slack formation when obedience pressure from an direct superior exists. These findings were consistent with findings in social psychology research (Buchheit, Pasewark, & Straser, 2003; McNair, 1991), auditing research (e.g., Hartanto & Kusuma, 2002; Nugrahanti & Jahjam, 2018; Putri & Laksito, 2013), and management accounting research (Brink, Gouldman, & Victoravich, 2018; Hartmann & Maas, 2010).

However, the results of the studies that found that obedience pressure on accountants adversely alters their professional judgment showed that the accountants' susceptibility to obedience pressure varies. For example, Davis et al. (2006) found that 69.35% of research participants felt a considerable amount of pressure from their superiors and the mean of those who indicated that it would be difficult to make a decision when there is a pressure from the superior was 57.23. Social psychology literature also offers support for subordinates' resistance to obedience pressure (Brehm & Brehm, 1981).

The variability of susceptibility to obedience pressure raises the question of what factors affect such variability. Understanding those factors would be beneficial to elevate the quality of accountants' professional judgment and lower the dysfunctional behavior that could be caused by obedience pressure. To find the answer, accounting researchers have investigated the effects of several factors that stimulus accountants' reactions to obedience pressure such as responsibility shifting (Davis et al., 2006), Machiavellianism (Hartmann & Maas, 2010), and gender (Collins, 1993). However, the investigated factors are factors related to accountants' individual characteristics. Prior studies have not presented any evidence pertaining to the factors related to the subject matter that could influence accountants' reactions to obedience pressure—the contextual factors. Referring to transactional process theory (Lazarus, 1995), this paper argues that contextual factors can influence accountants' reactions to obedience pressure and that these factors may interact with individual-related factors. Understanding the effect of contractual factors could be beneficial in understanding variability in accountants' susceptibility to obedience pressure.

The current study's contribution to the literature includes extending its scope to include the factors that could explain the variability in accountants' susceptibility to obedience pressure. Particularly, this paper expands on the discussions offered in Davis et al. (2006) and Hartmann and Maas (2010) that investigated the effects of individual-related factors on accountants' reactions to obedience pressure. The second contribution of this paper is that it builds upon the theoretical model of the pressure effect on accounting professional judgment and improves the model by including the underlying contractual factors. This improved model will help future researchers to consider the effects of contractual factors in their studies of obedience pressure. The third contribution of this paper is its explanation of the inconsistencies present in prior studies in terms of accountants' reactions to obedience pressure. Finally, this paper has useful practical implications for accounting and auditing managers who would like to improve their

accountants' and auditors' performances and mitigate the dysfunctional behavior and damages caused by obedience pressure.

This paper is structured as follows. The next section presents a discussion of the obedience pressure in the context of a stress model and the factors that affect accountants' reactions to obedience pressure. Then, the paper presents a review of prior studies' findings about the effects of individual-related factors. The following section discusses the effects of contractual factors and offers an improved general model of accountants' reactions to obedience pressure. Finally, a summary and conclusion are presented and applications for future research and practice are discussed.

STRESS MODEL AND FACTORS AFFECTING OBEDIENCE PRESSURE EFFECT ON ACCOUNTANTS

According to obedience theory, a person in a position of authority can influence others due to the power nested in the organizational hierarchy (Milgram, 1974). When obedience pressure exists, mistakes in judgment—either intentional or unintentional—can occur. Workplace-related psychology research has shown that a certain level of pressure can have a positive effect on performance (Spilker & Prawitt, 1997). However, the risk of encountering negative effects of dysfunctional behavior related to pressure is perceived as high and damaging. Obedience pressure could lead to dysfunctional behavior, which is costly to firms (Ashton, 1990).

According to the general model of stress, which is presented in Figure 1, a pressure situation has four elements: antecedent, response, consequence, and individual characteristics (DeZoort & Lord, 1997; Summer, DeCotiis, & SeNisi, 1995; Quick & Quick, 1984). The antecedent is a pressure stimulus, such as obedience pressure to misrepresent an account. The response is the stress response, such as the degree of giving in to the pressure. The consequence is a strain outcome, such as the misrepresented account. The pressure stimulus can appear in the form of social pressure—compliance, obedience, and confirmatory—or work and business-related pressures in general. Compliance pressure exists when an accountant is under pressure to follow certain guideline or follow an official order. Obedience pressure can appear in the form of a direct or indirect superior's demand to take certain actions. Confirmatory pressure exists when an accountant is under pressure to follow their colleagues' behavior and conform to their actions, which is also called peer pressure.

The fourth dimension of the model is individual characteristics, which are defined as individual-related factors. The individual-related factors, like gender and personality, could cause variation in individuals' reactions to pressure. The effects of individual-related factors in an accounting context have been the subject of several studies, which are reviewed in the next section.

PRIOR STUDIES ON THE EFFECTS OF INDIVIDUAL-RELATED FACTORS

Several accounting studies have investigated the individual characteristics that affect responses to obedience pressure. Clayton and Staden (2015) investigated the effect of individual ethical judgment and found that it was not enough to eliminate the obedience pressure effect on ethical decision-making. However, they documented that high levels of organizational/professional commitment were effective in mitigating the effects of obedience

pressure. Lord and DeZoort (2001) investigated the effect of organizational commitment, professional commitment, and moral development on obedience pressure. They found support for the organizational commitment, but not for moral development and professional commitment. Baird and Zelin (2009) investigated whether individuals that committed fraud under obedience pressure are seen less severely than those who committed their own fraud volition. They found support in the case of financial statement fraud, partial support in the case of asset misappropriation, and no support in the case of corruption schemes. Hartmann and Maas (2010) found support for the effect of Machiavellianism on subscription to obedience pressure to involve in budgetary slack creation. They concluded the corporate controllers who were high in Machiavellianism were more likely to give in to pressure from their superiors than controllers who scored low.

Collins (1993) investigated the gender effect and found that female accountants who experienced high social pressure at work had higher employee turnover. Davis et al. (2006) found evidence of management accountants' willingness to create budgetary slack when they were under obedience pressure from a direct superior. Such willingness was associated with a perceived lack of responsibility for the budget. Johnson, Lowe, and Reckers (2016) investigated the effect of "mood" on subordinates' ability to resist superior pressure in public accounting and found there was willingness to comply with superiors' unethical requests. Lord and DeZoort (2001) found that obedience pressure increased auditors' willingness to agree with misstated account balances, but confirmatory pressure did not. Lord (1992) found that personal accountability interacted with obedience pressure—auditors who were accountable for their decisions were less probable to issue an unqualified opinion as compared to those who were protected by a guarantee of anonymity.

THE EFFECTS OF CONTRACTUAL FACTORS

While prior studies have presented useful information about the effects of individual-related factors on accountants' responses to obedience pressure, an important category of factors has not been explained by the stress model presented in Figure 1. We define this category as contractual factors. The contractual factors are the factors that are related to the task and the environment in which the decision being made. According to the transactional process theory, contractual characteristics could shape individuals' responses to pressure and could interact with the individual-related factors.

Transactional process theory, which is an extension of person–environment(P-E) fit theory (Caplan, 1987), argues that stress, responses, and outcomes should be studied by evaluating the interaction between the individual and specific pressure situations (Lazarus, 1995; Schuler, 1982). Accordingly, the relationship between the environment in which the person operates and the individual is dynamic, not static. According to this theory, the individual's perception of the pressure, along with the individual's coping ability and skills experience, affect their attitude and reaction to the pressure. Therefore, in addition to individual-related factors, the underlying contractual factors can influence accountants' reactions to obedience pressure.

Contractual factors can appear in several forms, such as the magnitude of the amount of the issue, sensitivity of the issue, explicit conflict with laws and regulations or professional standards, and possibility of disclosure, and can play important roles in accountants bowing to obedience pressure. These factors are all related to the task and the environment in which the reaction is being formed. These factors can also interact with the individual-related factors, as

individuals' attitudes toward these factors could vary based on their personality, beliefs, and risk-taking. An investigation of the effects of these factors could lead to a better understanding of what actually affects accountants' reactions to not only obedience pressure but social pressure in general. Thus, this paper presents an improved version of the general model of stress, which was presented in Figure 1, by expanding it to include the effect of contractual factors. The improved model is presented in Figure 2 below.

Including the contractual factors improves and extends prior studies' findings regarding accountants' reactions to obedience pressure. For example, the discussion of contractual factors calls for revisiting the Davis et al. (2006)'s findings regarding responsibility shifting in order to determine whether those findings still hold after considering the effects of contractual factors. Similarly, it is beneficial to examine whether the effects of Machiavellianism and involvement in the management activities documented by Hartmann and Maas (2010) will change when the effects of contractual factors are considered. For example, will Machiavellians still give in to obedience pressure when the contractual factors are unfavorable to them.

SUMMARY AND CONCLUSION

This paper extends the discussion of the obedience pressure effect on accountants' ability to exercise independent professional judgment. The discussion of factors that affect accountants' susceptibility to obedience pressure is interesting, both from theoretical and practical perspectives, and could lead to the better management of dysfunctional behavior caused by obedience pressure. This paper contribute to the discussion of the factors that could affect accountants' reactions to obedience pressure by introducing the effect of contractual factors. These factors, in addition to individual-related factors that are discussed in the literature, can assist researchers and practitioners in understanding the formation of accountants' reactions to obedience pressure. They are the magnitude of the amount, the sensitivity of the issue, explicit conflict with laws and regulations or professional standards, and the possibility of disclosure. Future empirical investigation of these factors could be beneficial to examine their effectiveness. Understanding the effects of these factors would also benefit practitioners' ability to reduce the dysfunctional behavior of accountants and mitigate the damage that is caused by obedience pressure. For example, it would be beneficial to know which contextual factors motivate different individuals with different personalities and ethics to resist obedience pressure.

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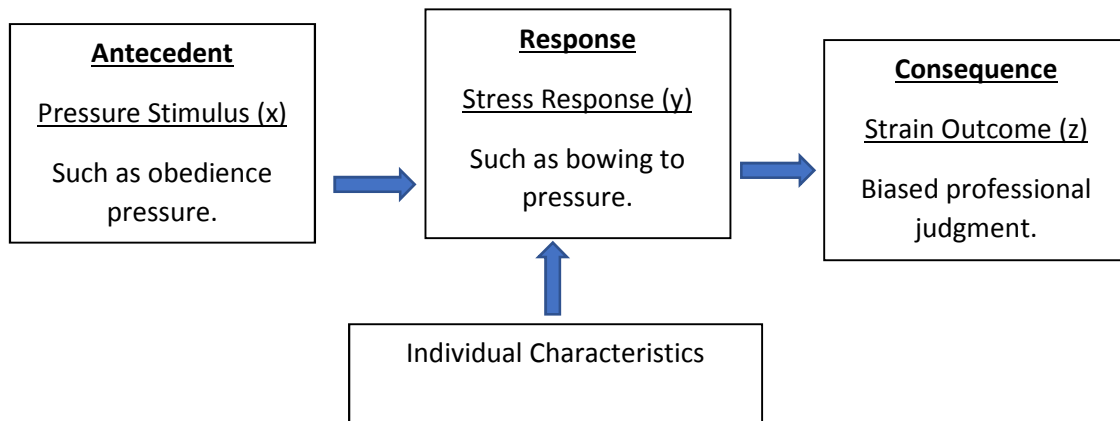


Figure 1: General model of stress. Adapted from Davis et al. (2006), DeZoort and Lord (1997), Summer et al. (1995), and Elliott and Eisdorfer (1982).

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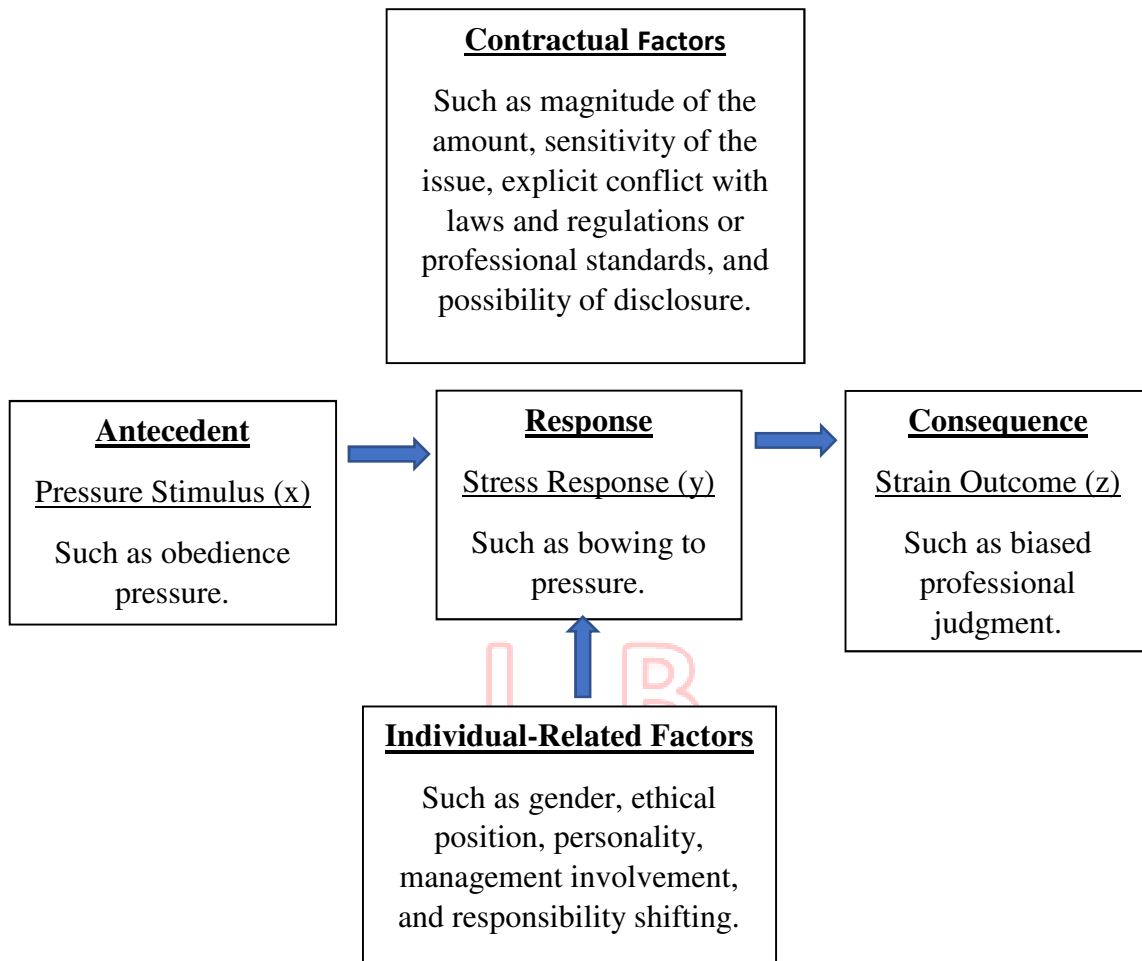


Figure 2: General model of accountants' reactions to obedience pressure.