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The Influence of Local Institutional
Pressures on the Socialization Process of
Swedish Audit Firms

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Abstract

- Title:** The Influence of Local Institutional Pressures on the Socialization Process of Swedish Audit Firms
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- Authors:** Frida Parkhagen and Marcus Nilsson
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- Key words:** Socialization theory, Proactive behavior, Institutional theory, Client diversity.
- Aim:** The aim is to identify the institutional pressures affecting audit firms in different local contexts.
- Theoretical approach:** We develop a model by using institutional theory, socialization theory and other relevant literature. We use this model to identify differences in the socialization process in different audit firms and different local contexts. We also identify the strength of some institutional pressures in the local context.
- Empirical methodology:** We conduct qualitative interviews with eight auditors working in large and small firms in three different local contexts
- Conclusions:** We find that the socialization process in audit firms is dependent on both the size of the audit firm and on the local context in which it is located. We also identify that mimetic pressure between firms of different sizes is stronger in a local context with low client diversity than in a local context with high client diversity.

Sammanfattning

Titel:	Hur lokala yttre faktorer påverkar socialiseringsprocessen i svenska revisionsbyråer.
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Kurs:	FE6202 Magisteruppsats i revision och redovisning
Författare:	Frida Parkhagen och Marcus Nilsson
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Nyckelord:	Socialiseringsteori, Proaktivt beteende, Institutionell teori, Klientmångfald.
Mål:	Målet är att använda institutionell teori för att identifiera vilka yttre tryck som påverkar revisionsbyråer på en lokal nivå.
Teori:	Vi utvecklar en modell genom att använda institutionell teori, socialiseringsteori och annan relevant litteratur. Vi använder den här modellen för att identifiera skillnader i socialiseringsprocessen i olika revisionsbyråer på olika platser.
Empirisk metod:	Vi genomför kvalitativa intervjuer med åtta revisorer som arbetar på både stora och små revisionsbyråer i tre olika kommuner.
Slutsats:	Vi finner bevis för att socialiseringsprocessen i revisionsbyråer är beroende av både storleken på revisionsbyrån och vilken lokal kontext den befinner sig i. Vi hittar också bevis för att olika stora revisionsbyråer har en socialiseringsprocess som liknar varandra mer i en lokal kontext med låg klientmångfald än i en lokal kontext med hög klientmångfald.

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1 Introduction

”There is no doubt that organizations exist in a milieu of ideas about appropriate ways of succeeding and behaving in their task environments.” (Greenwood & Hinings, 1993, p. 1053).

The above quote is taken from an article written by Greenwood & Hinings (1993), in a chapter labeled “The importance of Institutional Context”. The article stresses the importance of finding the institutional pressures that may influence the structure and shape of organizations in a local context. This kind of research has been done before in different organizations and sectors (Burns, 2000; Pettigrew, 1987; Greenwood, Hinings & Brown, 1990; De Clercq, Danis & Dakhli, 2010; Vasudeva, Spencer & Teegen, 2012). Prior audit research literature, however, is dominated by analyses treating the audit firm as a whole instead of focusing on firm offices in the local context (Zerni, 2012). All these studies *“implicitly assume that through standardized firm-wide policies and knowledge sharing /.../, all audits across practice offices and audit partners within an audit firm are uniform.”* (Zerni, 2012, p. 315)

Our thesis’ aim is to identify the institutional pressures affecting audit firms in different local contexts. In our theoretical framework, we develop a model that shows the institutional pressures considered in this thesis (See Appendix A). We have chosen to analyze the audit firms by using socialization theory. Organizational socialization is a topic that has seen much research over the last decades (Gruman & Saks, 2011; Van Maanen & Schein, 1979; Jones, 1986; Saks & Ashforth, 1997). Some authors see it as a positive, showing that a more rigorous socialization process can lead to increased learning by newcomers, a lower intention to quit and a higher job satisfaction (Ashforth, Sluss & Saks, 2007). Others see it as a negative, claiming that the selection-socialization process of an audit firm leads to weaker ethical reasoning among auditors (Abdolmohammadi, Read & Scarbrough, 2003; Wilkinson, Arnold & Sutton 2003). Most agree that the socialization process in Big-X audit firms is more rigorous than in smaller audit firms (Wilkinson *et al.*, 2003; Fogarty, 1992; Chatman, 1989). Van Maanen and Schein (1979) have developed a framework on socialization theory which helps us classify the socialization process of different audit firms into six different dimensions. The dimensions are *Collective – Individual, Formal – Informal, Sequential – Random, Fixed – Variable, Serial –*

Disjunctive and *Investiture – Divestiture*. These dimensions are further described in our theoretical framework.

The above dimensions are related to the organizational approach to socialization. Several articles instead focus on the proactive behavior of newcomers as a measure of socialization (Saks & Ashforth, 1997; Gruman & Saks, 2011; Ashforth *et al.*, 2007). These articles list six different dimensions that can be used to classify the proactive behavior of newcomers. These dimensions are *Information Seeking*, *Feedback seeking*, *General socializing*, *Networking*, *Boss-relationship building* and *Job-change negotiations*. These dimensions are also discussed in more detail in our theoretical framework.

Internationally, a study that applies institutional theory to socialization research has been done before by Fogarty (1992). He uses the isomorphism factors found in DiMaggio and Powell (1983). Isomorphism is a process that forces one unit in a population to resemble other units that face the same set of environmental circumstances (*ibid.*). The three types of isomorphism described by DiMaggio and Powell (1983) are coercive, mimetic and normative, explained in more detail in our theoretical framework.

We propose that client pressure, audit firm pressure, mimetic pressure and legislative pressure all influence audit firms in a local context. The purpose of our study is to explore the strength of these institutional pressures in differently sized audit firms in different local contexts. We also want to explore if these pressures influence the socialization process adopted by the audit firm, and the proactive behavior shown by newcomers. The rest of the thesis is structured as follows:

In chapter 2, our theoretical framework, we start off by giving an overview of the two theories used, *Socialization theory* and *Institutional theory*. The chapter ends with a discussion on how these are related and with the development of a model showing the institutional pressures affecting audit firms in a local context (See Appendix A).

Chapter 3 describes our research and the interviews with eight auditors working in both large and small audit firms in three different contexts. We also argue for our choice of questions to include in the interviews.

Chapter 4 contains the discussion of our findings and propositions. We find evidence that the socialization process of the audit firms is both context- and size dependent, and that there are differences in the strength of the institutional pressures depending on the context we are looking at.

Chapter 5 consists of our conclusions and implications for future research.

2 Theoretical Framework

Our theoretical framework describes institutional theory and socialization theory. It ends with a discussion on the institutional pressures relevant for our work, and how they are related to the socialization process within the audit firm.

2.1 Institutional Theory

The earliest definition of what institutional theory is comes from Selznick (1957). He views organizational structure as an adaptive vehicle shaped in reaction to the characteristics and commitments of participants as well as to influences and constraints from the external environment, according to Scott (1987). Since then there have been many different definitions of what institutional theory should be and of its validity (Scott, 1987), but the foundation of this thesis lies in the belief that the environment of an audit firm will affect the processes within the firm.

DiMaggio and Powell (1983) define how organizations are shaped by coercive, mimetic and normative pressures. They write about the concept of isomorphism. Isomorphism is a process that forces one unit in a population to resemble other units that face the same set of environmental circumstances (*ibid.*). DiMaggio & Powell (1983) define three types of isomorphism. Coercive isomorphism occurs as a response to political influence and from other organizations on which the organization is dependent. Coercive isomorphism might be forced

on an organization (as with government laws) or be implemented voluntarily in order for the organization to seek legitimacy. Mimetic isomorphism occurs when there is uncertainty within an industry and organizations model their own procedures after already successful organizations. Normative isomorphism is most associated with professionalization. If the members of different organizations are interacting through professional networks, then this will lead to an exchange of ideas on how an organization should be working. This will in time lead to a uniform thinking among employees of different organizations.

Burns (2000) writes about barriers which show that there is a natural resistance toward a change of accounting system in a global British chemical company. Even though there might be a change in accounting standards across the company, this might not be implemented in all parts of the company. If existing institutions are not congruent with the change in accounting practice, there may be a resistance towards the change. Furthermore, differences in power distribution and conflicts between different departments can lead to different parts of an organization adopting different practices (*ibid.*). A conflict between the marketing director and the head of the product development department led to the latter resisting the new “results-orientation” that the company wanted to implement. These examples show that even though there are coercive, normative and mimetic pressures toward change across organizations, there might be a resistance towards change in different parts of organizations. The view that institutional processes are not easy to set in motion is supported by Pettigrew (1987), who concludes that it is difficult to change an organization by changing the strategy of the organization. Rather, it is a combination of ideas from different parts of the organization that eventually affects the strategy implemented by the leaders of the organization.

Fogarty (2000) writes that new auditors have both explicit and implicit connections with different employees within the organization, and that these connections have been found to be important in the socialization process. In the next section, the socialization process and socialization theory will be discussed in more detail.

2.2 Socialization Theory

Organizational socialization is the process through which newcomers acquire knowledge and learn about their work (Ashforth, Sluss & Saks, 2007). Socialization theory has a focus on both the socialization tactics of organizations, and on how individuals socialize in their work process (*ibid.*). Therefore, the research is usually divided into two approaches (Gruman & Saks, 2011). The organizational-driven approach focuses on the organization's approach to socialization and has its roots in an article written by Van Maanen and Schein (1979). The newcomer-initiated approach instead focuses on how newcomers behave to navigate the ambiguity and reduce the uncertainty that comes with entering a new organization (Gruman & Saks, 2011). These different approaches will be discussed in chapter 2.2.1 and 2.2.2 below.

2.2.1 The organizational-driven approach

Van Maanen and Schein (1979, p. 37) define six dimensions which can be used to classify an organizations approach to socialization. The dimensions are listed below:

Collective (as opposed to *Individual*)

When newcomers are grouped and put through the socialization process together.

Formal (as opposed to *Informal*)

When newcomers are educated separated from the day to day work in the organization.

Sequential (as opposed to *Random*)

When the socialization process has clear steps so the newcomer knows how to reach the next level of his career.

Fixed (as opposed to *Variable*)

When there is a clear time-table for achieving the career steps.

Serial (as opposed to *Disjunctive*)

When a senior member of the organization acts as a role model for the newcomer and the newcomer is eventually meant to take over the role of the senior member.

Investiture (as opposed to *Divestiture*)

When the newcomers' individual experiences and attributes are seen as a resource and are enhanced.

It has been argued by Jones (1986) that the dimensions can be used to classify a socialization process into two different categories. The *Collective*, *Formal*, *Sequential*, *Fixed*, *Serial* and

Investiture factors are associated with institutional socialization, while the opposites are associated with individual socialization. In short, institutional socialization means that an organization takes an active role in the socialization process and guides the newcomer in his or her career, while individual socialization means that the newcomer is left to "sink or swim" (Ashfort *et al.*, 2007, p. 450). There is some controversy as to whether the *Investiture – Divestiture* dimension should be included with the other dimensions (Ashforth *et al.*, 2007; Ashforth & Saks, 1996). When performing factor analysis with the six different dimensions, it has shown that *Investiture* does not load together with the other five (Ashforth *et al.*, 2007). Since there is some controversy, we will separate the *Investiture – Divestiture* dimension from the other five dimensions as have been made by other researchers before (*ibid.*). We will still examine the dimension in our thesis; we will just not include it together with the other five when discussing institutional socialization.

2.2.2 *The newcomer-initiated approach*

When discussing the newcomer-initiated approach, it is assumed that all newcomers in organizations want to reduce the uncertainty that is associated with a new job role (Saks & Ashforth, 1997). There are different ways for a newcomer to do this. Gruman and Saks (2011) list *Information Seeking*, *Feedback Seeking*, *General Socializing*, *Networking*, *Boss-relationship Building* and *Job-change Negotiations* as factors that can be used to identify if a newcomer has a high proactive behavior or a low proactive behavior. Gruman and Saks (2011, p.423) measure these variables in the following way:

Information Seeking

The number of times the newcomer seeks out information on work-related topics.

Feedback Seeking

How often the newcomer seeks social critique and feedback after an assignment has been completed.

General Socializing

How often the newcomer attends social gatherings given by the company and tries to socialize in order to get to know the co-workers.

Networking

How often the newcomer tries to build a relationship with his co-workers.

Boss-relationship Building

How often the newcomer tries to build a relationship with his boss.

Job change Negotiation

How often the newcomer tries to modify his job demand.

These six factors will be considered when discussing the proactive behavior shown by newcomers in chapter 4.

2.2.3 Effects of socialization

Ashforth *et al.* (2007) have investigated how different forms of socialization affect newcomers. Their results can be seen in the model below:

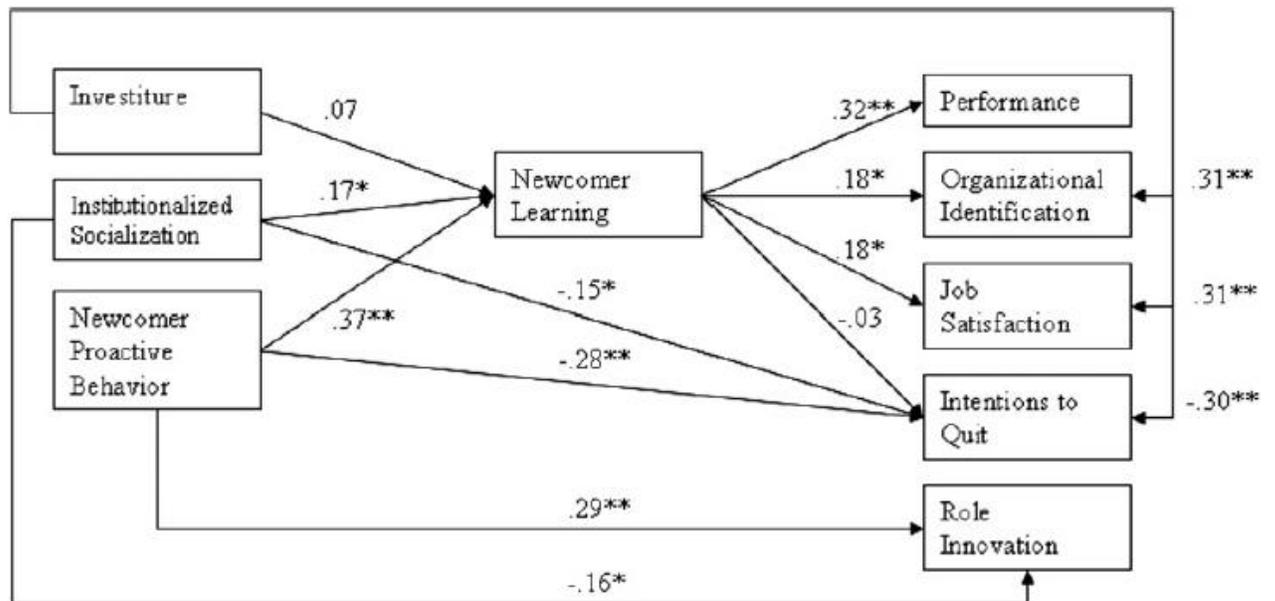


Figure 2.1 - How different forms of socialization affects newcomers (Ashforth *et al.*, 2007, p. 449)

The model is based on the different socialization processes that have just been described. Figure 2.1 shows that institutionalized socialization and proactive behavior, but not *Investiture* socialization, has a positive effect on the newcomers learning process. All three independent variables are associated with the intention to quit (-), the job satisfaction (+) and the

organizational identification (+) of the newcomer. This shows that the selection of socialization process is important for organizations since it has an effect on the newcomers.

Chatman (1991) argues that organizational socialization can affect the personal values of individuals. Effective socialization inspires members of organizations to have the same values as the organization. Alleyne, Hudaib and Pike (2012) suggest that auditors' intention to report false information in the annual report of clients is affected by the perceived support from the organization and closest team members. Increased organizational identification can then be a problem since the organization's values will be affecting all auditors in the same direction, rather than promoting the individual professional judgment of auditors. These problems with auditor socialization have been highlighted by others. For example, Bamber and Iyer (2007) has shown that the importance of the client to the audit firm has an effect on auditors and their tendency to succumb to the client-preferred method of reporting the depreciation of certain assets. Other articles suggest that if auditors are given directions from the audit firm to support the client-preferred method of reporting this can affect their professional judgment and their independence from the client (Kerler III & Brandon, 2010; Kadous, Kennedy & Peecher, 2003).

2.3 Theory building

In this thesis we want to explore if institutional pressures related to the environment of the audit firm affect the socialization process and the proactive behaviors shown by newcomers. We use institutional theory and socialization theory to develop our research questions.

Lander, Koene and Linssen (2012) write that the audit profession over the last decades has seen increasing institutional pressures. These pressures are different depending on the audit firm. For example, small audit firms may be more dependent on national associations for their education process, as the large audit firms have their own in-house education. Also, small audit firms serve smaller clients, which make them face different client demands. Further, they argue that audit firms face increasing contradictions from a professional (public-serving) logic and a commercial logic. There is also a pressure on audit firms to reduce the prices of their services because clients have better ways to find cheaper alternatives, for example through the internet.

The socialization process of audit firms is of course affected by this increasing institutional pressure. As Kraimer (1997) writes, socialization is not a process that takes place in isolation. As clients put pressure on audit firms to reduce their prices, the socialization of newcomers may be affected. For example, the newcomer's supervisor may feel that there are better things to do than answering questions from the newcomer. Also, they may pressure the newcomer to work faster, which might lead to the newcomer not having as much time to think about the problems that arise during the audit work. This may also mean that the newcomer gets easier tasks, instead of getting the time to figure out new problems. To be able to analyze how institutional pressures in the local context affect audit firms differently, we develop a model which shows the pressures that audit firms have to comply with when deciding on a socialization strategy (See appendix A). The model is explained in steps below:

2.3.1 Audit firm pressure

Large audit firms are protective of their reputation (Boone, Khurana & Raman, 2010). The fall of Arthur Andersen in the aftermath of the Enron scandal shows that it can be of vital importance for audit firms to keep their trustworthiness high (Nelson, Price & Roundtree, 2008). De Angelo (1981) goes as far as to say that the assurance value and perceived audit quality of an audit firm is directly related to the reputation of the firm. Research has also shown that there can be value for clients that choose an auditor working for a large audit firm. Nelson *et al.* (2008) show that the stock price of clients is affected by the value of their auditor's reputation. The reason that large audit firms can provide higher quality audits is because they train and educate their newcomers better than small audit firms, that they have access to better technology and that they have a higher reputation capital to protect (Hunt & Lulseged, 2007). Boone *et al.* (2010) write that the second tier audit firms behind the Big-4 audit firms are also big enough to be interested in protecting their reputation capital. They show, however, that while this is true in some cases, there is evidence that Big-4 audit firms are stricter when it comes to responding to client pressures. The audit quality between Big-4 audit firms and second-tier audit firms is similar, although there is a tendency that the former give more going-concern warnings (*ibid.*).

Because of the higher need to protect their reputation, there is of course pressure from the audit firms on the local offices to educate their newcomers in the best possible way. This, in theory,

means encouraging proactive behaviors and to have an institutionalized socialization process. Since the large audit firms have a higher reputation capital to protect, we suspect that these firms will have a socialization process that enhances newcomer learning more than the small audit firms. The research question we pose is:

RQ 1: Are institutional socialization factors (Collective, Formal, Sequential, Fixed, Serial) and proactive behavior by newcomers (Information Seeking, Feedback Seeking, General Socializing, Networking, Boss-relationship Building, Job-change Negotiations) more common in large audit firms than small audit firms?

2.3.2 Legislative pressure

Legislative pressure is the pressure from government through for example laws that need to be taken into consideration of audit firms when educating their auditors. This pressure is the same for all audit firms working under the same laws, but may vary from country to country. To become an approved or certified auditor in Sweden, the auditor trainee has to take a test at Revisorsnämnden (Revisorsnämnden, 2013). Up until now, there have been two different tests, one to become an approved auditor and one to become a certified auditor. In the future, however, there will most likely be only one, as the government has a legal proposition waiting to be approved that changes the law (FAR, 2013). The current law says that to take the test to become an approved auditor, the trainee needed a degree from a Swedish university or university college and three years of practical work with a supervisor who is either an approved or a certified auditor. To become a certified auditor, there are demands that the university studies last for at least four years and that the trainee has had five years of practical work with a supervisor. The practical work has some requirements. It has to give knowledge on different industries and contain both planning, execution and reporting of auditing assignments (Revisorslagen, 2001:883). The examination has in recent years put a bigger emphasis on the ethical rules that an auditor has to comply with. The practical work before an examination has to consist of at least 1500 hours of auditing, where the majority part is to be made up of auditing joint stock companies (*ibid.*). The auditor degree is to certify that the auditor has enough theoretical knowledge to perform the audit profession, and the ability to use this knowledge in practical circumstances (Revisorsnämnden, 2013).

2.3.3 Client pressure

The local environment of audit firms and research dedicated to specific audit partners rather than the environment of the entire audit firm is quite new (Zerni, 2012). Previous research to a large extent assumes that audit firms are uniform (*ibid.*). Zerni (2012) argues that because it is the individual audit partners that start and take care of client relationships it is important to focus research on the local level as well.

It seems obvious that audit firms are affected by the local environment. Previous research has shown that larger clients, more complex clients, high risk clients and clients that have a fiscal year ending in a busy season are associated with higher audit costs and therefore a higher audit fee (Hunt & Lulseged, 2007). Stronger competition between market leading audit firms leads to clients getting a lower audit fee after switching auditor (*ibid.*). Furthermore, specialization of the audit partner (in a specific market segment) is associated with a fee premium (Numan & Willekens, 2012). In order to get a fee premium for specializing in a specific market segment it is important that the clients in the local context are different (*ibid.*). Large audit firms can then use their ability to better educate and socialize their employees as a means of getting a fee premium for knowing different market segments better than the competition. An audit firm operating in an environment with many, highly differing clients may be able to obtain this fee premium pretty easily. The huge knowledge base within the audit firm will be of use to the larger clients working in a complex and uncertain environment and they should be willing to pay a fee premium for this. The smaller clients that just want to be audited for the cheapest possible price will have less bargaining power in such a context. However, the bargaining power of the smaller clients will increase in a local context where they are the majority. In a local context where most clients want an audit at the cheapest possible price, it will be hard for large audit firms to get clients if there are local alternatives that can perform an audit cheaper. As getting new clients is important to become a partner at an audit firm, there will be incentives for the approved and certified auditor(s) at the local firm office to lower their fees. A larger proportion of their work will then be focused on being as effective as possible in order to justify the lower fees, which might mean that they get less time to give feedback on the work of the newcomers in training. Also, a higher proportion of the mechanical paperwork that the certified auditor does not have time to do may be delegated to the newcomers of the audit firm.

Performing more paperwork means that the newcomers will get less time to accompany the auditor when visiting companies, and might compromise their ability to improve their professional judgment. We believe that the diversity of clients in the local context will have an impact on the socialization process of the audit firms. The research question we pose is:

RQ 2: Are institutional socialization factors (Collective, Formal, Sequential, Fixed, Serial) and proactive behavior by newcomers (Information Seeking, Feedback Seeking, General Socializing, Networking, Boss-relationship Building, Job-change Negotiations) lower in large audit firms operating in a local context with low client diversity than in a context with high client diversity?

2.3.4 Local mimetic pressure between audit firms

DiMaggio and Powell (1983) use the term Mimetic pressure to describe how organizations model themselves after other organizations when there is uncertainty, which in time leads to uniformity between different organizations. We believe that there is mimetic pressure that affects audit firms differently depending on the local context they are operating in. If the clients in the local context are highly differing, then the audit firm will be able to use a socialization process that promotes newcomer learning over efficiency. This will make the audit firms operating in the local context more different from each other, because there is no need to copy the practices of another audit firm. The large audit firms can operate along firm standards. However, if a large audit firm is operating in a local context with many small, uniform clients this will create a conflict between following firm standards and trying to comply with the pressure from clients and the local competing audit firms to lower audit fees. Especially now, when the mandatory audit for small companies is being removed in Sweden, this will create even more bargaining power for the clients in a context with low client diversity. This means more uncertainty for the large audit firm operating in a local context with low client diversity, which increases the likelihood that they will try to copy the practices of other local audit firms that are their direct competitors. The research question we pose is:

RQ 3: Are institutional socialization factors (Collective, Formal, Sequential, Fixed, Serial) and proactive behavior by newcomers (Information Seeking, Feedback Seeking, General Socializing, Networking, Boss-relationship Building, Job-change Negotiations) more similar across audit firms of different sizes in a local context with low client diversity than in a local context with high client diversity?

In the next chapter we discuss the research method we use in order to find evidence supporting our research questions developed in the theoretical framework.

3 Research Method

We will perform a qualitative study in order to collect the evidence needed to answer the research questions given in the theoretical framework. Ryan, Scapens and Theobald (2002) identify five different types of qualitative case studies: Descriptive, Illustrative, Experimental, Exploratory and Explanatory. An exploratory case study is used to “*explore the reasons for particular accounting practices*” and “*enable the researcher to generate hypotheses about the reasons for particular practices*” (Ryan *et al.*, 2002, p. 144). This is most fitting for the research we are conducting.

When conducting our research, we take the role of “Visitor” within the audit firm (Ryan *et al.*, 2002, p.152). This means that we visit the audit firm and interview the subjects of the research (*ibid.*). Interviews are the type of evidence most associated with qualitative research (*ibid.*). Ryan *et al* (2002) writes that the most important issue to consider is whether to use structured or unstructured interviews. Structured interviews ensure that the questions asked to the different respondents are similar and that the information obtained is comparable. Unstructured interviews allow the researcher to pursue new issues and ideas as they are raised. We call our interviews semi-structured. We use a list of questions that we want answered in every case to increase comparability between cases, but we also want to deviate from this interview guide to get a better understanding of the research problem. Saunders, Lewis and Thornhill (2007) also acknowledge that semi-structured interviews are best when conducting an exploratory study.

The lack of standardization when conducting qualitative interviews may lead to reliability and validity issues. Martella, Nelson and Marchand-Martella (1999) describe the importance of validity and reliability when collecting data. These concepts are interrelated. Reliability focuses on whether the measurement device produces the same results across observations, providing the researcher a way of assessing the trustworthiness of the findings. Validity focuses on whether the device measures what it was meant to measure. In order for the data to be valid, the researcher needs to interfere as little as possible with the subject(s) (*ibid.*). In qualitative research especially, it is the researcher that is the measurement device which makes it harder to assess the reliability and validity of the data collected (*ibid.*). Two researchers are not likely to produce the same results. This is because of the differences in background and interests that influence the study (Eisner, 1991). Because of this problem, qualitative researchers need to use methodological procedures where they fully explain their work process, verify observations and cross-check their sources (Martella *et al.*, 1999; Ryan *et al.*, 2002). Each interview was recorded and transcribed on paper in order to be able to show exactly what was spoken and how the questions were asked. The development of the questions is described below (see Appendix B for the interview guide).

The questions under section 1 are background questions. These are asked to get a better understanding of the background of the respondent. The interview questions in section 2-4 may have to be slightly modified during the interview depending on the years of experience the auditor has, if the auditor has worked at several audit firms or if the auditor has already taken the test to become an approved auditor.

The questions under section 2 have been used by Jones (1986) to measure how high the respondent ranks on the six socialization dimensions used in the Van Maanen and Schein (1979) article on socialization theory. They are used to define how institutionalized the socialization process of the respondent's audit firm is.

The questions under section 3 have been used by Major and Kozlowski (1997), Wannberg and Kammeyer-Mueller (2000) and Ashford and Black (1996) to measure the six dimensions on

proactive behavior proposed by Gruman and Saks (2011). These questions will be used to determine if the organization promotes or opposes proactive behavior among the newcomers.

The questions under section 4 are used to identify how diverse the clients in the local context are, how diverse the clients of the audit firm are and how the newcomers experience this diversity.

Client diversity has not, to our knowledge, been measured before. Strauss-Kahn and Vives (2009) have written about the distribution of company headquarters in the US. They write that 75 % of company headquarters (measured by sales) are located in the 20 biggest US metropolitan areas. One of the main reasons for this is that larger headquarters need to be in close proximity to good transportation systems, like airports (*ibid.*). Another reason is that if an area has a lot of headquarters already, this will attract headquarters of other companies. Henderson and Ono (2008) argue that smaller companies have no need to move their headquarters, it is more important to be closer to production facilities. However, as companies grow, there are positive economies of scale-effects to locate the headquarters in a bigger city. Because of this, client diversity should be higher in large metropolitan areas in close proximity to an international airport. The headquarters of successful companies located in small cities will eventually move, resulting in lower client diversity in small cities. The size of the local context and closeness to transportation (airports, train stations...) will therefore be used when determining differences in client diversity in the local context, but the answers of our respondents will also be taken into consideration. The subjects in this study are eight auditors working at differently sized audit firms in different local contexts. Six of the auditors had between one and five years of experience. These are distributed evenly across the different contexts and work in differently sized audit firms as can be seen in table 3.1. The other two auditors have more experience and are included to give a different perspective on our questions. Table 3.1 lists the auditors that were interviewed. For privacy reasons, we will not list exactly which audit firms the auditors are working at. Instead, they have been classified into two categories: Large audit firm and small audit firm.

Table 3.1 - Interviewed auditors

Profession	Gender	Years of experience	Date of Interview	Audit Firm	Context
Auditor (A1)	Male	1	May 9 - 2013	Small	Helsingborg
Auditor (A2)	Male	3	May 20 - 2013	Large	Helsingborg
Auditor (A3)	Male	4	May 9 - 2013	Large	Kristianstad
Auditor (A4)	Male	5	May 9 - 2013	Small	Kristianstad
Auditor (A5)	Female	9	May 14 - 2013	Large	Kristianstad
Approved Auditor (A6)	Male	24	May 14 - 2013	Large	Kristianstad
Auditor (A7)	Female	2	May 15 - 2013	Small	Malmö
Auditor (A8)	Female	1	May 20 - 2013	Large	Malmö

Large firm: When classifying large firms we include the Big-4 firms, which are Deloitte, Ernst and Young, KPMG and PricewaterhouseCoopers (Francis & Yu, 2009; Ashford, LaFond & Mayhew, 2003). Since it has been argued in our theoretical framework that second-tier firms try to keep an audit quality similar to the Big-4, we also include these as large firms. Choi, Kim, Kim and Zang (2010) have classified the second-tier firms in Sweden as Mazars SET, BDO and Grant Thornton, and this is the same classification that we use.

Small firm: Every firm not mentioned above is a small firm, as classified in Choi *et al.* (2010).

The local contexts in our sample include Malmö, Helsingborg and Kristianstad, all municipalities in the south of Sweden.

Malmö: Malmö is one of the largest cities in Sweden. Since the completion of the Öresund bridge in 1999 there has been an increasing collaboration between Malmö and Copenhagen, located at each end of the 5 mile long bridge. In Malmö alone, there are 39.204 registered companies. 2.245 companies have a turnover of 10 million SEK or more, of which 147 have a

turnover of more than 500 million SEK. The latter group consists of companies in 19 different sectors. (Allabolag, 2013a)

Helsingborg: Helsingborg is a municipality in Sweden located 50 miles north of Malmö municipality. It is smaller than Malmö, with 16.902 registered companies. 744 of those companies have a turnover of more than 10 million SEK, of which 59 have a turnover of more than 500 million SEK. The latter group consists of companies in 15 different sectors. (Allabolag, 2013b)

Kristianstad: Kristianstad is located along the eastern coast of Sweden. It has 9987 registered companies. 342 companies have a turnover of more than 10 million SEK, 14 of those have a turnover of more than 500 million SEK. The latter group consists of companies in 9 different sectors. (Allabolag, 2013c)

Ryan *et al.* (2002) argue that the selection of cases should reflect the needs of theory development, rather than statistical analysis. Multiple cases are used for two purposes – replication and theory development. A number of similar cases are selected to replicate the theoretical explanations. Dissimilar cases are used to extend the theory to a wider set of circumstances (*ibid.*). Most of the interviews were performed in Kristianstad. When choosing the other contexts, we wanted to have one that was similar to Kristianstad in terms of size and client diversity (Helsingborg) to see if the evidence collected from there is coherent. We also wanted to have one context that had higher client diversity (Malmö) than Kristianstad to see if the evidence collected from the contexts are differing in some way.

Comparing evidence from one interview to another interview can help increase the validity of qualitative research. This is known as data triangulation (Ryan *et al.*, 2002). Other ways to increase validity are method triangulation, researcher triangulation and theory triangulation (*ibid.*). Method triangulation means that the researcher assesses the validity of evidence from a source by collecting other evidence from that source. Researcher triangulation means that a number of researchers are used, preferably with different backgrounds and areas of interests, to get different views on the same case. Theory triangulation means that the researchers use

different theories to look at the same case and see if there are different results (*ibid.*). The fact that both researchers writing this thesis are present at each interview means that we have two different views about the evidence collected. The other methods of increasing validity have been rejected because of time constraints.

4 Discussion

In our thesis we have interviewed eight auditors about their views on the socialization process of their audit firm, the client diversity in their region and about auditor education in general. In our discussion below, we form propositions that aim to answer the research questions given in our theoretical framework.

4.1 The socialization process in Swedish audit firms

In our theoretical framework we proposed that large audit firms will have a more institutionalized socialization process than small audit firms, and that newcomers of large audit firms will show more proactive behavior than newcomers at small audit firms. Talking to auditors at different firms, we find both differences and similarities in how the socialization of newcomers is handled within the firm. The first two dimensions to consider are if the socialization process is *Collective* or *Individual* and *Formal* or *Informal*. Here, we believe a distinction can be made between being socialized into the profession and being socialized into the audit firm. When it comes to socialization into the profession, for example when taking courses related to theoretical knowledge about auditing, all auditors in our sample are socialized collectively. The auditors from the small audit firms take the courses given by FAR, which are held at different locations in Sweden together with auditors from other audit firms. The large audit firms act a little different from firm to firm, where some educate their auditors completely in-house, some send their newcomers on courses given by FAR and some employ a mix between the two. In all cases, this education is collective and formal and is focused on the theoretical knowledge of auditors. The socialization process into the audit firm, for example getting to know co-workers and learning the practical aspects of day to day work, is very different depending on the firm we are looking at. This, we have found, is mainly size dependent. In large audit firms, more recruits are hired and they have mandatory courses to

attend with the other newcomers from the same firm. In the smaller audit firms, fewer recruits are hired each year. These recruits are then sent to courses when it is suitable to the firm:

A3 (Large audit firm, Kristianstad):

“Yes, the mandatory courses I take together with my co-workers. The first two or three years have a pretty clear educational plan, and there are some courses that you have to take. When you take the courses that you can choose yourself you don’t know, sometimes you meet someone you know and sometimes you don’t”

A1 (Small audit firm, Helsingborg):

“The only other person taking courses is L, but she is two years further in her education than I am. We are so few assistants so /.../ I take the courses given by FAR together with employees from other audit firms”

A7 (Small audit firm, Malmö):

“Me and another person who started at the same time have taken some courses together, and some separately. I have taken some courses specializing in housing co-operatives that he hasn’t, but that’s just because I have been working more with that type of companies than him”

We can see from the above comments a tendency that small audit firms educate their newcomers individually, or in small groups, while there is a more collective focus in the larger audit firms. Next we try to classify the socialization process on the *Formal – Informal* dimension. Yet again, we make a distinction between being socialized into the profession (taking courses related to theoretical knowledge) and being socialized into the audit firm (learning to perform the practical audit work). The socialization process of all the audit firms in our sample seems very informal. Auditors begin immediately, or after a short period of time, to work on auditing companies, supervised by an approved or certified auditor. After each assignment, the supervisor gives comments on what can be improved, so that the auditor can learn by trial and error. When running into a problem, all auditors state that they go to their supervisor or a co-worker to ask for help. This suggests that the socialization process is

informal, according to the definition given by van Maanen and Schein (1979). However, the degree of supervision from the supervisor varies, as can be seen below:

A3 (Large audit firm, Kristianstad):

“We had a plan for the first two weeks on how to get into the day-to-day working processes. Actually, you start work from the first day, but you have a supervisor sitting next to you for the first two assignments, and then a close supervisor after that who is maybe part of the same audit team. One who you can discuss with and who gives you feedback. Then you get to work more and more by yourself, but, regardless of the level, you always ask your co-workers of course.”

A4 (Small audit firm, Kristianstad):

“I sat down at a computer the first day and had to ask questions as they came up. Well, actually we got a short introduction on how the programs worked, but it’s not like we had a few weeks of education.”

A7 (Small audit firm, Malmö):

“I don’t think that they had given it much thought when we first began, it was very much ‘straight to business’. ‘Here is the audit program we use, why don’t you sit and try it out’, then we started out pretty quickly, like, here is an audit assignment. But of course you hadn’t done a tenth of what was expected of you when you were finished. So it was like, we started working immediately and then we had some meetings where we were told what we should have looked at when we missed something.”

All of the above comments show a work process that is informal. However, the process at the large audit firm is a little less informal, with a dedicated supervisor showing the newcomer how things are to be done. The large audit firms also give their theoretical courses together with other newcomers at the same audit firm. This makes getting to know your co-workers formal in the large firms, since the courses are separated from the day to day activities of the audit firm. Even though the socialization process is informal in all firms, it is important to consider that the large audit firms are a little less informal than the small firms.

The third and fourth dimensions to consider are whether the socialization process is *Sequential* or *Random* and if it is *Fixed* or *Variable*. *Sequential* socialization refers to “*the degree to which the organization or occupation specifies a given sequence of discrete and identifiable steps leading to a target role*” (Van Maanen & Schein, 1979, p. 51). *Random* socialization is the opposite, when the steps leading to the target role are unknown, ambiguous or continuously changing. The socialization process for auditors in Sweden is clearly *Sequential*. Auditors know which courses they have to take, how much supervision is needed and the knowledge that is important to pass the test to become an approved and certified auditor. Van Maanen & Schein (1979) write that the socialization process in professions is often very *Sequential*, and this holds true for all the audit firms in our sample. When it comes to the *Fixed* versus *Variable* dimension it is more firm dependent. *Fixed* socialization means that a recruit is given a “*precise knowledge of the time it will take to complete each passage*” (Van Maanen & Schein, 1979, p. 55). *Variable* socialization means that a “*recruit is given few clues as to when expect a given boundary passage*” (Van Maanen & Schein, 1979, p.55). Below are some comments from auditors:

A7 (Small audit firm, Malmö):

“I don’t feel that we have been sitting down and discussed at what time I need to be finished with this and that, it is more ‘Look at the FAR webpage’ where it is pretty clear which courses you need to go. I feel like the firm will let me take the courses in my own pace.”

A6 (Large audit firm, Kristianstad):

“The thought is that everyone who starts here will write to become an approved auditor after five years. The recruits are given more and more qualified work assignments and after around two years they are audit officers themselves. Then they start to maybe be supervisors themselves and bring new recruits out to auditing assignments.”

Of course auditors know that they can write the test to become an approved auditor after three years. Some audit firms, however, have a more structured way of getting there than others. The large audit firms give their newcomers different titles along the way to in some way separate the senior auditors from the newly recruited auditors. When asking newcomers at small audit firms

what their title is, they often say auditor assistant or auditor, while the members of large audit firms use titles like senior auditor or audit officer depending on how far in their socialization process they are. The small audit firms have a plan for their newcomers to become approved auditors, but the large audit firms have a clearer timetable on which steps you have to achieve within the firm to get there. From this perspective, the socialization process in the large audit firms is more *Fixed* than in the small audit firms.

The last two dimensions to consider are *Serial* or *Disjunctive*, and *Investiture* or *Divestiture*. A *Serial* socialization process means that “*senior members of the organization groom newcomers who are about to assume similar positions within the organization*” (Van Maanen & Schein, 1979, p. 60). A socialization process is *Disjunctive* when “*newcomers don’t follow in the footsteps of immediate predecessors*” (Van Maanen & Schein, 1979, p.61). The socialization process in all audit firms is clearly *Serial*. Newcomers are given guidance by their seniors when they run into obstacles or just need to discuss something. The role of the senior members is a little different though. The below comments are from auditors who have been asked if they have a supervisor or not:

A3 (Large audit firm, Kristianstad):

“I have a coach. A coach is someone that you can discuss things with and it isn’t just the new employees that have a coach, even the partners have a coach. But I think the word you are looking for is sponsor. He is someone who you can ask for help during the first two weeks. And if you have other questions, you are surrounded by co-workers. Also, the auditor in charge of each audit assignment gives you feedback after each assignment.”

A4 (Small audit firm, Kristianstad):

“I don’t have anyone special as a supervisor.”

There seems to be a clearer focus in the large audit firms that the auditors have a clear role model, while in the smaller firms you ask whoever is available. This makes the socialization process in the small audit firms a little less *Serial* than in the large audit firms.

An *Investiture* socialization means that the “*organization through the use of tactic doesn’t want to change the recruit. Rather, it wishes to take advantage of and build upon the skills, values and attitudes the recruit is thought to possess already*” (van Maanen & Schein, 1979, p.64). A *Divestiture* socialization process “*seeks to strip away certain characteristics of the recruit. Many occupational and organizational communities almost require a recruit to sever old friendships, undergo extensive harassment from experienced members, and engage in the ‘dirty work’ of the trade typified by its low pay, low status, low interest value and low skill requirements*” (van Maanen & Schein, 1979, p.65). Here, there are some differences between audit firms. In some audit firms, the new auditors get to discuss with their supervisors, specialize into different sectors and take courses that they are interested in. This suggests that the socialization process is investiture in these audit firms, because not all recruits are shaped the same way and their own interests are taken into consideration when choosing the courses. Some audit firms give their auditors a lot of responsibility right away, while others let their recruits do more of the mechanical work for a while. Below are some comments from auditors when asked if the education process is different depending on the newcomer’s skills and values:

A5 (Large audit firm, Kristianstad):

“Well, to some degree we have a plan to follow. So some courses you have to do, and then you can discuss it with your boss if you think that you need something else.”

A6 (Large audit firm, Kristianstad):

“No, they (the new recruits) go to courses together and take the same courses.”

A4 (Small audit firm, Kristianstad):

“We don’t have a defined educational plan. Some of us are interested in some areas and others in other areas. You choose the courses you attend based on your own interests, except for the courses that are mandatory from FAR. All the auditors have attended those.”

Here the answers differ a little even from same-sized audit firms within the same context. However, it is interesting that the members of small audit firms get the responsibility to find courses that they want to attend themselves and then discuss it with their employers. This should

mean that these newcomers find courses that they think are interesting themselves, thus enhancing the differences in knowledge areas between them. In the larger audit firms, it seems like it is much stricter on which courses the newcomers have to attend in the first few years. From this perspective, the socialization process can be classified as *Divestiture* in the large audit firms and *investiture* in the small audit firms. However, an interesting comment was made by A6 (Large audit firm, Kristianstad):

“I think it is different in Kristianstad than for example Stockholm. In Stockholm the new recruits start to work with much larger companies in larger audit teams right away. So then they get to look at 750 pages of accounts receivable. The work is more monotone and mechanical and it may not feel as developing.”

It seems that, in large audit firms at least, the socialization process may be more *divestiture* in audit firms located in a context with high client diversity, for example in the case of Stockholm. Someone has to do all the mechanical work, and it will probably be the new recruits. In a local context with lower client diversity, the recruits get to perform an entire audit procedure rather than just the easiest and most mechanical part of the work:

A2 (Large audit firm, Helsingborg):

“The audit process is 4 steps. I got to perform all the steps from the start, at least with the smaller clients. Here in Helsingborg the work consisted of mainly smaller clients.”

A8 (Large audit firm, Malmö):

“It depends on the size of the team, if it is small you get to do everything but if it's large you divide it so that I as a new employee get the easier tasks.”

Thus, even though the process is *divestiture* in all large audit firms, it may be even more so in a large audit firm located in a context with high client diversity. Our findings from this discussion allow us to form the following propositions:

Proposition 1: *Large audit firms have a socialization process more associated with institutional socialization factors than small audit firms.*

Proposition 2: *Client diversity in the local context is negatively related to the Investiture socialization dimension in large audit firms.*

4.2 Proactive behavior shown by newcomers in Swedish audit firms

The six factors of proactive behavior are *Information Seeking, Feedback Seeking, General Socializing, Networking, Boss-relationship Building* and *Job-change Negotiations*. These will be discussed in turn below like in the previous section on socialization strategies.

Information Seeking means that the newcomer seeks out information about different topics from different sources within the audit firm (Ashfort, Sluss & Saks, 2007). The topics can be the day to day tasks performed by the newcomer, the newcomer's role within the organization or the organization's values. The sources that information can be taken from are mentors, supervisors, co-workers, observations, trial and error and an organizational manual (*ibid.*). The auditors in our sample primarily relied on information from co-workers, mentors and supervisors when it came to questions about their work. The larger audit firms tried to reduce the uncertainty for newcomers by having short introductions on the computer programs they would be using, or even assigning a mentor for a while. This was not the case in some of the smaller audit firms, where the introduction process was more of a trial and error one. Ostroff & Kozlowski (1993) made the observation that newcomers with mentors or supervisors relied on the observations of other employees and information from mentors, while newcomers without mentors primarily relied on observation of other employees and information from co-workers. Information from mentors or supervisors is most associated with positive socialization outcomes (*ibid.*). Below are some comments from auditors on what they do when they run into a problem while working:

A7 (Small audit firm, Malmö):

"I probably go and ask someone, I am not too happy about looking in the books. Everyone is willing to help, and I feel like I can ask anyone, even the guy that started at the same time as I did."

A8 (Large audit firm, Malmö):

"I either look in the books, or I go to my mentor."

The auditor in the small audit firm brought up her immediate co-workers as a source of information, while the auditor at the large audit firm first thought of her mentor. This is representative for the differences in answers in most of our audit firms. Auditors in large audit firms mention mentors or supervisors as sources for information, while auditors in the small audit firms ask anyone within the firm. The books (usually FAR (2012)) are regularly referred to as a secondary source of information, or as something to use when there is no-one around who can answer the questions. All auditors show a strong need for information seeking, which may indicate that there is high ambiguity and uncertainty in the work of a newly hired auditor. Large audit firms have recognized this and try to reduce this uncertainty by providing mentors and short introductions on the work process. This should indicate that large firms have a more active role in the socialization process (Ashfort *et al.*, 2007). However, we see no difference in the amount of information seeking by the employees of the different audit firms.

The second factor to consider is *Feedback Seeking*. Ashford & Black (1996) mention that newcomers who seek and receive feedback should be able to better tailor their performance to their current setting. Therefore, the more feedback a newcomer is given, the more socialized he or she will be. The audit firm approach to giving their auditors feedback varies a lot within our sample. A7, working at a small audit firm in Malmö, does not receive feedback as often as she would like, while the auditors at small audit firms in Helsingborg and Kristianstad get feedback after most audits. All the auditors at the large audit firms receive feedback to some extent. A3, working at a large audit firm in Kristianstad, does not receive feedback after audits that are perceived as easy. In other audits, he sets goals for himself and tries to live up to them. Then he seeks out feedback from the auditor in charge of the audit, so he can use the information once each year. To summarize, auditors at large audit firms routinely receive feedback, but only some of them seek out extra feedback themselves. Auditors in small audit firms receive less feedback and rarely seek out feedback. Since feedback seeking is related to uncertainty, and from the comment from A3 that feedback is not given on easy audits, we can draw the conclusion that the working process may be more structured in the small audit firms. If there was uncertainty, then either the audit firm would feel a need to comment on what could have been done better, or the newcomer would have felt the need to ask for critique on their performance.

The third factor is *General Socializing*. *General Socializing* has been associated with building a more positive relationship towards an organization (Ashford & Black, 1996). To measure this factor, we asked our subjects if the audit firm gave parties or other social events, and how often he or she participated in them:

A3 (Large audit firm, Kristianstad):

“When I first began here, I thought that there were a lot of social events. Now I feel like it is normal. For example, next week we organize an after work for employees together with representatives from the bank sector. We also have some parties where all the offices meet together. /.../ We rarely have events together with other firms. They are our closest competitors so it would feel strange.”

A4 (Small audit firm, Kristianstad):

“We don’t have many parties given by the firm. We try to organize some things together with the office in Malmö a few times a year. Once a year we have a party together with the other firms in Swerev.”

It seems like the large audit firms organize more social events for their newcomers than the small audit firms. Also, these events are attended by only members of the same audit firm. The small audit firms have a different approach. Both the small audit firm in Helsingborg and Kristianstad are members of Swerev, a collaboration of small auditors in different parts of Sweden. Collaborating and socializing with other small audit firms is seen as a way to enhance the knowledge base within the own firm, which can be used in the marketing towards clients. However, the large audit firms already has access to this knowledge within the audit firm and do not see a reason to socialize outside their own sphere, further building on the positive feelings towards the audit firm. Socializing outside firm boundaries may help auditors build a relationship towards the profession rather than towards the audit firm as you get to socialize with different auditors and not just with different co-workers.

The last three factors are Networking, Boss-relationship building and Job-change negotiations. Networking and Boss-relationship building can be analyzed together since all auditors have

similar answers to them. When asked about trying to build a relationship with co-workers and their supervisor or boss, everyone mentions that they are all sitting together at the same table, there is no hierarchy and that everyone are friends with everyone. Even at the large audit firm in Malmö, with around 40 auditors, there is only one large table where everyone takes their breaks and eats lunch. The questions used to examine these factors may have been developed for companies with more employees than the relatively small audit firm offices we looked at. However, since everyone knows everyone, this reduces the uncertainty about the newcomer's position within the group and other things he or she may feel unsure of about the organization. Every auditor interviewed says that they have a good relationship with everyone at the office, and can thus discuss these topics with both superiors and immediate co-workers. As for Job-change negotiations, this differs a little among audit firms. All the audit firms in our sample have a yearly meeting to discuss increases in salary, and no-one in the sample has thought about negotiating about salary any more often than this. However, when it comes to periods where the workload is high, most auditors have negotiated with their superiors and co-workers about delegating some of the workload to someone else.

A2 (Large audit firm, Helsingborg):

“I haven't felt that the workload is too high, when there is too much to do you can just mention it. We have a person in charge of this so you just tell him.”

A1 (Small audit firm, Helsingborg):

“Yes, I have. You learned pretty quickly that you can't say yes to everything. You have to say no or you have to put some audit on hold for later. I have become better at it, but it took some time to learn to say no.”

The large audit firms often have someone responsible for evening out the workload among newcomers while the small audit firms do not. However, all respondents had to a similar extent negotiated with a supervisor or co-worker about lessening the workload in periods when there was much to do, showing that job-change negotiations were fairly similar in all audit firms. This leads us to the following propositions:

Proposition 3: *General Socializing and Feedback Seeking are more common in large audit firms than in small audit firms.*

Proposition 4: *Information seeking, Networking, Boss-relationship Building and Job-change Negotiations are similar in large audit firms and small audit firms.*

4.3 Client diversity in the local context and its effect on audit firms

In chapter 3 we argued that Malmö, the third largest city in Sweden and located near Kastrup International Airport, should have higher client diversity than Kristianstad and Helsingborg. This view has been confirmed when asking auditors about how they feel about their local context. They usually mention that there are many companies in many different sectors regardless of the context they operate in, but that there are mainly smaller clients to audit located in Helsingborg and Kristianstad while the larger clients are located in Malmö. Since the large audit firms have offices in many parts of Skåne, there is no need for the firms in Kristianstad and Helsingborg to look for new clients to audit in Malmö. The large audit firms seem very context-dependent. They have some clients outside their immediate surroundings, but mainly their clients are located in close proximity to the audit firm office. The small audit firms are a bit more flexible. They also talk about closeness to the client as one of their main advantages, like the large audit firms, but when asked where they look for new clients they mention much larger regions than the large audit firms.

When comparing the small audit firms across different contexts, and working from the assumption that Malmö has high client diversity while Kristianstad and Helsingborg have lower client diversity, we notice an interesting aspect. In Malmö, when A7 (Small firm) is asked what she thinks is their most important feature to clients, she responds that price and closeness to the auditor is the most important. But she also mentions that the clients may feel more important in a small audit firm than in a large one. If the large audit firms have more large clients, then it is hard for the small client to feel important when he wants to discuss something with the auditor. In Helsingborg, the answer to what is the most important feature to clients is closeness, to be able to give extra counseling and availability. In Kristianstad, the answer is closeness to the client, familiarity and a huge knowledge base. The two small audit firms in Helsingborg and

Kristianstad are the only ones to talk about a higher knowledge base, something otherwise typically associated with the large audit firms. They are also members of Swerev with the purpose to connect many different small auditors in order to be able to promote to customers that there is access to a knowledge base. When comparing the large audit firms in our different contexts, there is also a variance in the answers given to this question. The audit firms located in Helsingborg and Kristianstad believe that price has to be a factor you need to consider when promoting yourself to clients, although they recognize that they are a bit more expensive than the competition. In Malmö, knowledge is the only aspect that is mentioned and price is not considered by the auditor we interviewed. It seems that in a context with low client diversity, the large audit firms try to approach the small in terms of price, while the small audit firms try to approach the large in terms of audit quality and knowledge. This is not the fact in Malmö, a context with high client diversity. When there is high client diversity, it is almost as if the market is segregated. The large audit firms compete in a different league than the small audit firms over the larger clients, without much focus on the smaller clients. The smaller audit firms are left to compete with each other for the smaller clients. This means that mimetic pressure in a context with high client diversity should be low, at least between audit firms of different sizes. In a context with low client diversity mimetic pressure should be higher between different sized audit firms.

Proposition 5: Client diversity in the local context is negatively related to the mimetic pressure between large and small audit firms.

A strong mimetic pressure should, according to DiMaggio and Powell (1983) and our theoretical framework, influence audit firms of different sizes to have a more similar socialization process and more similar proactive behavior shown by newcomers. When reviewing our interviews, we do not see a big difference between the large audit firms in different contexts. This may mean that the audit firm pressure to have an institutionalized socialization process is stronger than the mimetic pressure between the firms. In our theoretical framework, we discuss how larger audit firms are protective of their reputation because they have more to lose than small audit firms (Boone *et al.*, 2010; Nelson *et al.*, 2012). If this pressure to keep reputation high is larger than the mimetic pressure between firms, there will be

no differences between the large audit firms in different local contexts. However, small audit firms do not have this outside firm pressure, at least not the ones in our sample. Here we can see some minor differences between the small audit firm in Malmö and the small audit firms in Helsingborg and Kristianstad. We work under the assumption that mimetic pressure between large and small audit firms is stronger in Helsingborg and Kristianstad than in Malmö. This should lead to the socialization process in these two contexts being more similar to the large firms than in Malmö. In some dimensions, this is true. The below comments are from auditors asked if they have been told when they should write the test to become an approved auditor:

A4 (Small audit firm, Kristianstad):

“Not so much a plan when we are going to write, but we have appraisals each year where we get to know the goals for the coming year, for example which courses may be good to take.”

A7 (Small audit firm, Malmö):

“I feel like they will let me take it at my own pace. Sure, we have had some talks about well, maybe in five years I can write, but it’s not like I feel that they expect it and it is very much up to me to decide if I want to.”

The comment from A3 shows a socialization process that is more *Fixed* than the comment from A7. We also find evidence that the socialization process in a small firm operating in a local context with low client diversity is more *Serial* than in a context with high client diversity. The following answers are from auditors when asked if they have a supervisor or not:

A1 (Small audit firm, Helsingborg):

“I have to say that I do have a supervisor, my closest boss. Maybe we don’t have one in particular, but there are three partners and they are all responsible for the employees. Everyone is really nice and don’t care if I ask stupid questions now during my education period.”

A7 (Small audit firm, Malmö):

“No, no-one special. You ask the auditor in charge of the audit mission if there are any questions, but it’s not like you should always come to that person when you had questions.”

These are the differences we found; the other four socialization dimensions are pretty much similar across the small audit firms. Even the differences in the answers given to the questions described above are minor and may not be indicative for a difference in socialization policy. We do feel, however, that it is enough to form another proposition:

Proposition 6: Client diversity in the local context is negatively related to institutional socialization dimensions in small audit firms.

The differences could have been larger if we had chosen local contexts with even bigger differences in size than the ones that we did use. However, because of the time limitation of 10 weeks and the fact that we tried to contact the auditors within a busy time period, we didn't have much of a choice. We had to use our personal contacts in order to get interviews, and most of them were working in the local contexts we ended up using.

When it comes to proactive behavior shown by employees in small firms, the differences are even smaller. The only dimension we find a relevant difference in is the *Feedback Seeking* dimension. The below comments are from auditors that were asked if they they receive feedback after an audit assignment:

A3 (Small audit firm, Kristianstad):

"Yes, I do get feedback. Maybe not as often now that I have been here for five years, but in the beginning it was pretty much after each audit."

A7 (Small audit firm, Malmö):

"Maybe not as often as I would have liked. It would have been better to get feedback after each audit mission to discuss how it went and things like that. But at the same time there isn't a lot of time for that."

Auditor A7 in Malmö does not receive feedback as often as she would have liked and she does not seek out extra feedback either, since there is no time. This is not the case in Kristianstad,

where the policy about giving feedback is more similar to that of the large audit firms. Our last proposition from this discussion is:

Proposition 7: Client diversity in the local context is negatively related to feedback seeking by employees in small audit firms.

5 Conclusions

In our thesis, we have examined the socialization process of different audit firms and some institutional pressures affecting these firms in the local context. We find that the socialization process in audit firms is indeed affected both by the size of the audit firm and by the local context in which they operate. Previous articles have found that there are differences between audit firms when analyzed on a local versus national level (e.g. Zerni, 2012; Francis & Yu, 2009) but to our knowledge no one has researched differences in the socialization process before.

The socialization process in large audit firms is more associated with institutional socialization factors than the socialization process in the small audit firms. This is in line with some research made in audit and accounting firms internationally (e.g. Arnold *et al.*, 2003; Fogarty, 1992), although we have not seen a similar study conducted in Sweden. We do not find the same convincing differences in proactive behavior shown by newcomers within the audit firms. There are some differences, mainly in the amount of feedback given by supervisors and in the willingness to socialize with other newcomers outside of work, but the other four proactive behavior-factors are practically identical across audit firms. We believe that this is because new auditors are recruited from Swedish universities or university colleges, where they have studied for three or more years. There is a law on which courses the students have to attend, so regardless of the school newcomers have attended they will have a similar knowledge base when they begin work. The factors that do differ are more audit firm dependent than the other factors. Feedback seeking depends strongly on the audit firm's approach to giving feedback and

if the tasks the newcomer is performing are complex or not. The amount of socializing the newcomers can do outside work is related to the number of parties and events the audit firm is hosting for their newcomers. Since these factors are higher in the large audit firms, it gives further support that the larger audit firms think more about the socialization of their employees than the smaller audit firms.

Our main focus has been to show that institutional pressures in the local context can affect the audit firms in different ways. One of these pressures is client diversity. Malmö was assumed to have high client diversity, while Helsingborg and Kristianstad were assumed to have lower client diversity. This was based on the size of the city, the number and size of companies registered in the city and the closeness to an international airport and other transportation. This definition was acknowledged by the auditors we interviewed when asked about how they felt about the client diversity in their local context. While most acknowledged that their own context had clients operating in a large number of different industries, they also agreed that Malmö had more potential large clients – national, international and listed. We found evidence that large audit firms operating in a context with high client diversity have a more divestiture socialization process. According to Ashforth *et al.* (2007), a divestiture socialization process has a negative effect on both job satisfaction and intention to quit. According to van Maanen and Schein (1979), however, a divestiture socialization process allows organizations to strip the newcomers of their individual attributes and reshape them in the way the organization wants them to be. Large audit firms may find this important. The fall of Arthur Andersen shows that a large audit firm operating in many different countries is vulnerable if there is only one part that fails. A divestiture socialization process means that it is easier for the large audit firms to shape their employees the way they want, increasing the likelihood that they will operate along firm standards and not compromise the reputation of the firm.

We also find evidence that mimetic pressure between audit firms of different sizes is stronger in a context with low client diversity. In a context with many large and many small clients, the market seems to be segregated so that the large audit firms compete for the larger clients, while the small audit firms compete for the smaller clients. We find no evidence that the socialization process of the large firms is different depending on the local context in which they operate. The

reason for this, as we discussed earlier, can be that the audit firm pressure to have the socialization process in a certain way is stronger than the mimetic pressure from the local competition in the local context. We find some evidence, however, that the socialization process of small audit firms and proactive behavior of their newcomers is affected by the local context. The differences are not very large however, and this will need to be examined further in future quantitative studies. Maybe the differences would have been even bigger and easier to identify in a local context with even lower client diversity, which brings us to the limitations of our thesis. The first limitation is that we could have added one more context, even smaller than Helsingborg and Kristianstad. The offices of the large firms in Helsingborg and Kristianstad were still pretty large, almost as large as the office in Malmö, and there were many registered companies that had a turnover of more than 500 million SEK. The reason we did not include offices from a smaller context in our sample is because we tried to contact them during a busy season, and they either plainly said no to being interviewed or they referred us to the office in a larger city. Another limitation is that we only have two broad classifications of firm size, large and small. There can of course be some differences in socialization practices between different audit firms that are neither size related nor context related. The optimal solution would have been to find offices of the same large firm in the different contexts and compare them to local competitors. The reason for not doing this was, yet again, that we tried to contact the auditors during a busy season and the interviews we have in our thesis were the only ones we were able to arrange within the ten week time frame for the thesis.

So, do we feel confident enough to give an answer to the introductory citation by Greenwood & Hinings (1993, p.1053)? No. Based on the relatively few numbers of interviews our findings must be looked at with skepticism. Our study was never meant to give a definitive answer to the question, but rather to show that there is reason to further study differences between audit firms in different local contexts. Even so, the findings we have made can be important. Audit firms will benefit from knowing that their employees are affected differently depending on where within the audit firm they are employed. Standard setters will benefit from knowing that it is important to not just look at whole countries when developing the profession, but rather understand that there are differences in how audit firms operate depending on the size of the local context in which they operate. We do believe that the topic of audit firms in the local

context needs more research. Future research could be devoted to testing the propositions made in this thesis on a larger scale, in more audit firms and in more local contexts of different sizes. There are methods for measuring the socialization and proactive behavior dimensions quantitatively, described in the articles mentioned in our research method. The topic of audit firms in a local context could also be looked at from more theoretical viewpoints. We chose institutional theory because we thought that it fit best for our purpose, but analyzing the topic from other theoretical viewpoints may produce entirely different results.

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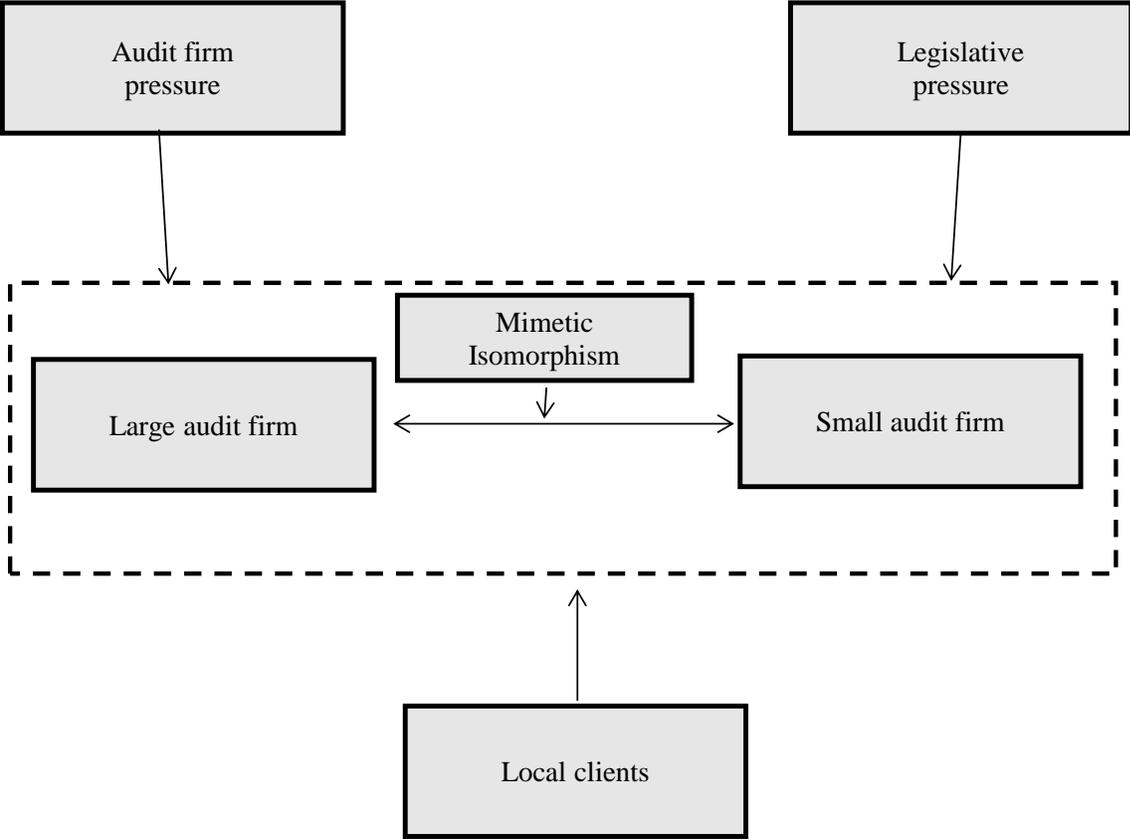
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Appendix A – Institutional pressures influence on audit firms



Appendix B - Questions for the survey

Section 1 – Background questions

1. Name:
2. Employment:
3. How many employees are working at your work site?
4. How long have you been working as an auditor?
5. How long have you been working as an auditor with your current employer?
6. Have you got any plans to write the test to become an approved / authorized auditor?

Section 2 – Organizational socialization

1. How much education do you get from your employer?
2. Is it the audit firm that gives these courses or someone else? Are they taken together with employees from other firms?
3. Do you attend these courses by yourself or are there more people in your audit firm taking the same courses?
4. Do you and the other employees follow the same educational plan, meaning that you have a timetable for when to complete the education and when to take the exam?
5. Do you have a supervisor or are you currently supervising anyone?
6. Is the supervisor only your supervisor or does he has other employees to supervise? How many others?
7. Do you have other people than your supervisor to ask questions if he/she is not available?
8. Have you been told when you are expected to complete the test to become an approved / certified auditor?
9. Do you feel any pressure to write the test as soon as possible?
10. How often do you help each other in the office if there is a task that you aren't able to complete?
11. Is it then the supervisor that shows you how to perform the task, or do you ask other colleagues?
12. When you get to learn new working tasks, do you learn it at the work site while you are working or do you gather someplace to have an education on how to perform the new tasks?

13. Did you start to work right away when you were newly hired or was there a training period before you could sit down with your ordinary working tasks?
14. Do you think that the education process is different depending on the personal skills of a new employee or is it about the same for everyone?
15. Do you feel that your employer has given you clear targets to reach in your education process?
16. Are the courses you take building on each other so that you have to complete one to be able to take the next one, or doesn't it matter in which order you take the courses?
17. Do you feel that you got a lot of help from your colleagues when you were newly hired? Both bosses, supervisors and other employees? Do you feel like you have bothered someone when asking questions?
18. When you have a new task to perform, do you try yourself or do you ask someone else how to perform it? If you try yourself, how do you do it?

Section 3 – Proactive behavior

1. Do you often get feedback on how well you perform your duties or if there are some improvements you can make in your routines?
2. Do you get feedback from both your supervisor and your colleagues?
3. Does the audit firm arrange parties and other activities outside working hours? How often? Do you usually attend these gatherings?
4. Do you feel that it is important to have these gatherings?
5. Do you usually socialize with employees from other parts of the audit firm or is it mostly the colleagues you work with every day that you hang out with?
6. Do you and your colleagues meet employees from other audit offices in Scania, Sweden and so on?
7. Do you meet with employees of other audit firms?
8. Do you think it is important to have a good relationship with your boss?
9. Do you actively try to create a better relationship with your boss, for example by sitting at the same table during the lunch break?
10. Have you ever felt that the workload is too high?
11. Did you then ask another employee if they could help out?

12. Have you ever talked to your boss or supervisor about lessening the workload? How often?
13. How often do you negotiate for salaries and who has taken the initiative for these negotiations?

Section 4 – Client diversity

1. Quickly describe the working process when you audit a client.
2. Does this work differ depending on the client you are auditing?
3. Do you feel like there is a large variation among your clients, for example that they are active in different sectors or that there are both large and small companies?
4. Do you have mostly local clients or are their client in different parts of Sweden?
5. Which is the main area you focus on when searching for new clients?
6. Do you feel like there is a large variation of clients in the region you are operating in?
7. What do you think that new clients feel are you most important quality when they decide to have you as an auditor?
8. Is it more important that the price of the audit is low or is there other things that are more important?
9. Do you experience more pressure to have a low price now after the mandatory audit has been removed for small companies?