

AUDITOR-CLIENT ALIGNMENT THROUGH COMPETITIVE PRIORITIES: EVIDENCE FROM ITALY

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ABSTRACT

The present study investigates the strategic alignment of the big-four independent audit firms and their respective clients in Italian environment. Like other companies, independent auditors aim at profitability and optimisation of resource while minimising risks. Thus, the auditing partners in this tone are questioned about the relationship with their clients and the more appropriate strategies for competitive alignment. This study borrows a leaf from similar study carried out in Brazil that concludes for alignment of competitive priorities among auditor and their clients. Investigating Auditor-Client Alignment through competitive priorities therefore, tends to bridge the gap between academic research and practice particularly, when it touches some of the key players of corporate governance, auditor and client. It is interventionist in nature and tends to produce thought leadership information to improve business decision-making, interpret complex questions affecting auditor-client relationship and finally establish a fact base for auditors, auditees, regulatory agencies and professional organizations. The study is exploratory in nature, so to start with, we question: Is the independent audit firm aligned with their clients based on competitive priorities? The study is composed of a non probabilistic purposeful sample of 8 independent audit firms and their respective 8 clients. Data have been collected through unstructured questionnaires applied face-to-face and have been treated in two ways: a) Content analysis of qualitative data automated through *NVivo* that enhanced categorization and classification of data aiming at observing the expressions and symbols that were represented and b) Descriptive analysis of some structured questions furnished by the respondent. Thus, based on our analysis, we conclude for no association of competitive priorities more valued by the auditors aligned strategically with the clients in Italian environment. It is possible that this finding be related to a new economic scenario of crisis which Europe is passing through.

Keywords: Italy, Alignment, Competitive Priorities, Auditor, Client.

Área Temática: Contabilidade para Usuários Externos

1 INTRODUCTION

Since 80s after scaling through productivity pressures, companies in the following decade began to face interminable discourses about costing in other to build a foundation towards competitiveness.

Nevertheless, gauging this problem, it is practically impossible to face competitive forces alone without aligning with business partners to assist in better positioning.

In this context, for the auditors there is no other alternative other than adapt their auditing methodologies to suite the client's realities, thus implying review of firms strategies.

Noteworthy that the problem is not simply accept audit services, perform the job and publish financial statements. Or disclose societal, fiscal and operational information without summing up information that assists the management or board of directors on remodelling corporate governance strategies. Rather, know if there are certain association of competitive criteria of the clients aligned with theirs.

Miles and Snow (1978) signals that companies need to continually adjust their strategies to the environmental conditions and also align its structures to the established strategies, which signify a proposed strategy of readapting which is essentially dynamic. This concept of readapting raised by these authors is so vivid in auditor – client relation today.

1.1 Problem statement

Auditors' earnings are not readily known to the public so, their costing relating to services offered are not also available. On the other hand, clients publishing financial statements compressed their figures and stakeholders are not able to identify how much is paid to the auditors. But the core of the problem is not what auditors earn for the services rendered but what it gives to the stakeholders and how he sorts to protect itself from undisclosed information to which he is liable as a result of misrepresentation.

Hopefully, based on planning and the experience of audit team, an extension of audit test with assumed level of risk could be seen as reasonable to track accounting errors that could relief stakeholders from erroneous judgments and decisions, so, no single conclusion could be reached without manageable levels of auditing coverage. Say in Italy, in the big four audit firms an average budgeted hours of 10,000 – 15,000 could be spent in the audit of a Big Bank; 5,000 – 9,000 hours in Medium Banks and 800 – 2,000 hours for Small Banks.

Just like any other business enterprises, audit firms aim at profitability and optimisation of resource while minimising risks. In this line of thought, Audit Partners are questioned by peers on issues of quality, costing, etc. concerning their clients and the strategies they are adapting to align themselves.

Jones et al (1998) while reflecting upon service constellation, commented on how strategies and capabilities influenced collaborative stability and change. The authors further mentioned that constellation and alliance among multiple companies are used to face customized complex situations in professional services.

Thus, considering the case of auditors, firms would always be worried about the relationship developed with their clients even though there is a concern about benefit realisation for their services. Nevertheless, it is difficult to risk any prognostics that the principle of open negotiation should be the strategy when auditor/client relationship is discussed without touching customer alliance strategies.

Ultimately in Europe, clients considering costs in the time of crisis would likely be a common issue in order to reduce audit fees, evidently, not deviating from their original competitive priorities which may not always be that of their auditors. Based on the aforementioned and in order to guide an exploratory approach, we pose the following research question: Is the independent audit firm aligned with their clients based on competitive priorities?

1.2 Contribution of the Study

This study elucidates the question of if there is or not alignment between auditor and its clients and if at all that it exists, the study assisted in determining the degree of this relationship and as a corollary, the meaning read to competitive priorities would enhance the building of a laudable auditing engagement.

Furthermore, should one ask what has the knowledge about competitive priorities had in the past and how this impacts this relationship today? Obviously one would say that both players, that is auditor and client must be worried about how this represents in their purse. This study tends to be first of its kind in literature; probably because this author had been member of two of the big fours and had nurtured this thought for a while.

In effect, the analysis of the big four approach to the issue looks as a jump start considering their representation in the market and would pave way for further analysis on the 2nd tier audit firms and also en bloc for other countries.

Thus, as literature is very scarce we believe that the study has helped to raise the knowledge required to boost audit/client relationship apart from proving for the sustenance of auditor client relationship.

Finally, this study helps to draw attention of the practitioners and academia to a more viable model in the strategic management of auditor and its clients; pros and cons of concrete partnership in our today society.

1.3 Objectives

The present study investigates the relationship of strategic alignment of the independent auditors (big-four) firms and their respective clients in Italian environment.

As secondary objectives, we envisage:

Raising the variability of the competitive priorities that exist in the most popular audit firms in the world (the big four firms) and if this can configure a healthy competitive force in work among them and their clients;

Pinpoint the actual competitive priorities mostly valued by the clients and the auditors;

And lastly, annotate the competitive priorities only known to the auditors or the clients that up till now are unknown to through literature.

1.4 Hypothesis

Therefore, in order to support this study we are of the hypothesis that: there is no association of competitive priorities more valued by the auditors aligned strategically with the clients.

2. LITERATURE REVIEW

In this section, we recapitulate on the main topics in the literature that would eventually enhance the comprehension of the study which proceeds as follow: Firstly, similar studies and some authors' position on the topic; secondly, competitiveness and strategic positioning; thirdly, strategic alignment, fourthly, client alignment and lastly, competitive priorities.

2.1 Prior studies

Prior studies have been developed in other countries whereby authors signal their concern about the auditor and the client. Damos and Eichenseher (1982); Eichenseher (1984); and Johnson and Lys (1990). Apart from those of, Chaney, Jeter and Shaw (1997) who wrote about company's realignment of decisions to choose auditors. Thavapalan, Moroney and Simmet (2006) were worried about the impacts of the merger of Coopers and Lybrand (CL) and Price Waterhouse (PW) concerning client-auditor relationships. In Italy, we are not aware of similar studies covering auditor-client alignment to the stage of writing of competitive priorities.

Noteworthy that in the core of business management there are studies such as that of Ghobril (2007) that evaluated the relationship of strategic alignment and organisational performance in the industries of capital intensive structure in the State of São Paulo; Nafal

(2008) investigated strategic alignment of the companies in the capital goods sector and Moori; Ghobril and Marcondes (2009) investigated alignment of competitive priorities between buyers and sellers of industrial machinery and tools.

Thus, in order to better comprehend the question at stake, we presented a schematic of theoretical and conceptual framework in Figure 1, showing the relationships of main variables involved in auditor/client competitive alignment through competitive priorities.

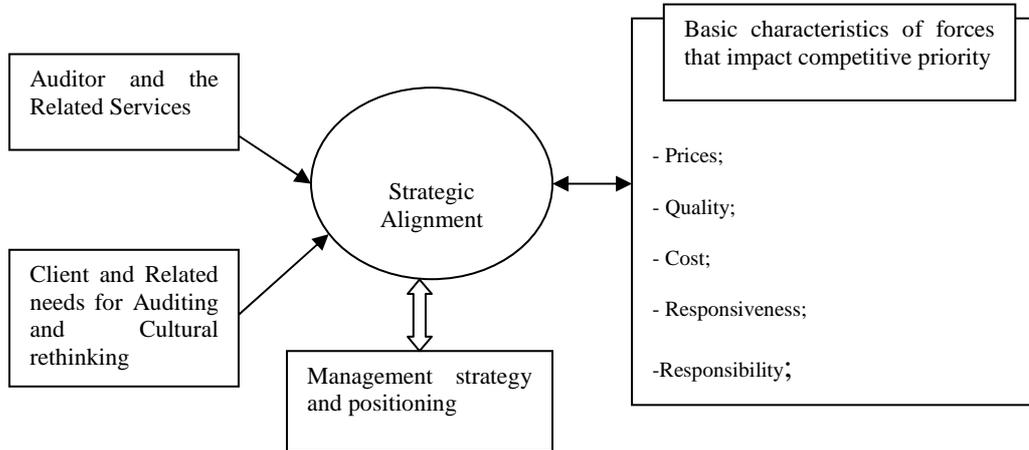


Figure 1 Conceptual Framework

2.2 Competitiveness, Auditor Regulation and Strategic Positioning

It is virtually impossible to talk about strategy without commenting competitiveness because one stimulates the other. Competitiveness exists in the cause of competition. This process involves several competitive dimensions of dispute (Possas, 1999) which are: the company and its strategies, product and market characteristics and competitive environment. Business competitiveness is related to the characteristics of the competitive environment and the ability to understand the competitive dimensions. According to Porter (2004) to address the five competitive forces, there are three generic strategic approaches to overcome potentially successful other companies in an industry: a) the total cost Leadership - Ability of the company to perform the necessary activities at a lower total cost than the rivals' b) Differentiation - advertising, customer service, pioneering the industry and the peculiarities of the product are among the main factors that foster identification with the brand and c) Focus - contestants with a concentrated target seek their advantage through activities tailored to meet the needs of a specific segment.

A company can successfully follow more than one approach as their primary target, although this is rarely possible. The generic strategies are methods to overcome the competitors in an industry in order to achieve plain competitiveness. Although seemingly trivial, competitiveness is still a concept virtually indefinite. Ontological wise, there are so many approaches, concerns and comprehensions that seek to link with it, that it is worthwhile reasoning on the subject and the state of art before establishing a definition for the concept. In this respect, concerning strategic positioning, competitiveness gained prominence when managers began to protect their interests when their discussions began to change from productivity concerns (70s) to cost management (80s). In fact, the repositioning of executives intensified in the business scenario in the 80's owing to the need to give answers to the perverse environment of competitions. The positioning the CIO emerged in early 80 in order to answer the perverse use of IT (Banker et al, 488p, 2011).

For auditors, repositioning won the last scenario with financial scandals that led to the implementation of Sarbanes-Oxley Act of 2002 in the United States and Corporate Law 11.638 in Brazil. In Italy auditor responsibility was reinforced pursuant to art. 14-34 of

Legislative Decree 27.01.2010, no. 39 with the activities of Companies and Stock Exchange Commission (CONSOB).

2.3 Strategic Alignment

The ontology of alignment indicates it as: action or effect of aligning towards axis direction. Therefore, strategic alignment of an audited company can mean "an axial direction of the company" in order to achieve their goals in relation to their peers attending to competing priorities.

Zajac et al (2000) understood the concept of alignment has its roots linked to theoretical perspectives grounded in theories of organizational strategy, and their biggest concern is focused on aligning organizational resources with environmental opportunities and threats.

In this context, Porter (1992) and Miller (1998) argued that strategic alignment stemmed from research on business strategy, whereas organisational alignment emerged as a result of threats and opportunities of the environment. Thus, reflecting decisions which, aligned to corporate resources, and assisting in connecting the organisation with their environment.

Yet, in attempting to explain strategic alignment, Chandler (1962) states that the alignment process starts with the design by positioning the company with its market. At this juncture, this requires its linkage with other functional strategies such as marketing, finance and human resources, so that the business strategies formulated would be successful (Moori, and GHOBRIEL MARCONDES, 2009).

More so, an organization aligned to its strategy tends to provide better information for decision making, generating reports in a timely manner, that translate into valuable data to stakeholders (Imoniana p. 133, 2007) that is, results a consistent structure that positioned itself competitively in the business world.

2.4 Alignment between client and auditor

Right from the 1929 crisis to the subsequent ones in the stock market, auditors have always worked with apparent ease.

Until then, the only issue that used to worry auditors was how to keep pace with client's advancement while renewing proposals for audit services. When the auditor specializes in certain industry and holds specific technology or expertise needed to prospect the client, will probably have a competitive edge over other auditors (Dano and Eichenseher 1982; Eichenseher 1984; Johnson and Lys 1990).

Thus, in consequence of scandals of financial statement manipulation, stakeholders have recently develop a thick skin about the job of the auditors thus generating stringent measures proposed and implemented by the regulating bodies such as SEC-US measure of the Sarbanes-Oxley Act 2002 placing emphasis on internal control by the management and co-responsibility for fraudulent acts. This also culminated with restating mandatory rotation for the auditor after five years in Brazil as required by Resolution 308/99 of CVM - Brazilian Securities & Exchange Commission (SEC-BR). Italy states in accordance with Stock Exchange Commission (CONSOB) nine years is the basis of rotation, however the auditor is entitled to presentation of proposal for reconsideration for another 3 years thereby summing up twelve years.

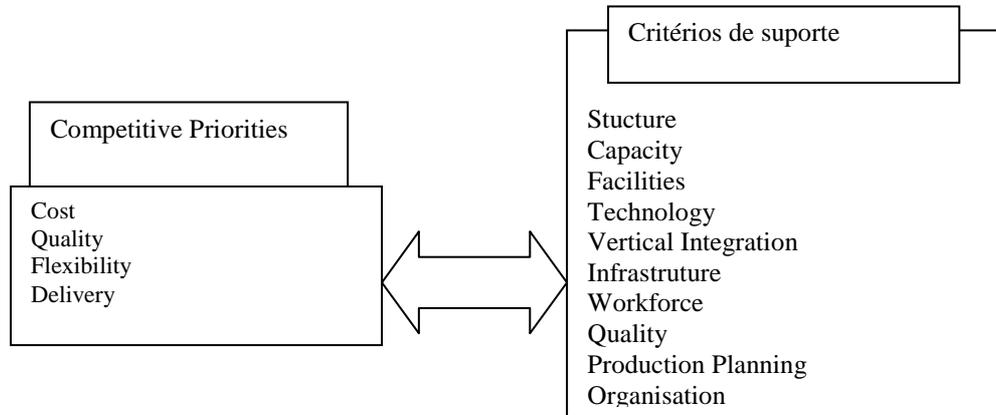
2.5 Competitive priorities

Knowing full well that the bone of contention of market dispute is competitiveness, one asks oneself, what exactly are the priorities given to the items in which firms compete?

As Boyer and Lewis (2002) adapted in Figure 2 show that priorities evolves costs, quality, flexibility and delivery. The same authors note that these are supported on two major

pillars: (i) Structure - capacity, facilities, technology and vertical integration and (ii) Infrastructure - Workforce, quality, production planning and organization.

Figure 2 - Priorities competitive and supporting structure



Source: Adapted from Boyer and Lewis (2002).

About this development, Moori, Ghobril and Marcondes (2009) comment that, in general, the competitive priorities defined by the customer are counter balanced by manufacturing strategies that include: a) cost, related to the adoption of concepts of economy of scale, learning curve and productivity, b) quality, manufacturing flawless products, c) speed of delivery, requests and materials move through faster operation d) flexibility, directly related to the existence of uncertainty in the production environment. When a company understands what its competitive priorities are, it must also seek to understand the current stage of its structures and infrastructure so that it can align those priorities with its various internal needs (Boyer and Lewis, 2002). Although the criteria revolve the items previously mentioned, for greater coverage, the overall description of competitive priorities adopted for this study may be as contained in Table 3.

Figure 3 – Definition of criteria for alignment between auditor-client

Code	Criteria	Explanations
A ₁	Quality	Working in accordance with the terms of reference and engagement agreements;
A ₂	Price	Offering the services at affordable price and costs relative to competitors;
A ₃	Benefit Realisation	Presenting results satisfactorily in a timely manner and decision-oriented
A ₄	Ethics	Uphold moral conduct in business relationships and professional societal responsibility through accomplishment of standard of regulatory bodies
A _n	Versatility	Maintaining presence through professional support when needed and maturity to meet up service requirements and diverseness of approach as needed by services.
C ₁	Quality	Enable the auditor to work in accordance with the terms of reference and engagement agreements;
C ₂	Price	Paying fees for services at affordable costs relative to competitors
C ₃	Benefit Realisation	Expecting satisfactory results in a timely manner and decision-oriented
C ₄	Ethics	Uphold moral conduct in business relationships and professional societal responsibility through accomplishment of standard of regulatory bodies
C _n	Versatility	Supporting auditor with professional maturity to meet up service requirements and diverseness of approach as needed by services.

Still on competitive priorities, Lemos et al (2004) identified how traders of consumer goods of Santa Maria used strategic planning to make businesses more competitive. They found that the lower the level of knowledge in management by the manager, the greater the reliance on advisory services in the area of management, HR management and communication, to mention just a few. They also found that more advisory services used by managers, especially those with higher level of education, was that of accounting and auditing, mainly due to the high rate of tax shouldered by companies and the constant surveillance by the Brazilian government. Managers considered accounting and auditing advices as essential for structuring economic and financial data of the company besides being a management tool in decision making.

Carvalho and Pinho (2004) observed that the differentiation strategy, considering the concept of generic strategies established by Porter (1998) is quite compatible with the nature of audit activity. They understand differentiation as service offerings that add value to the client and to expand markets, gain credibility and ensure survival. The auditor must resort to the principles of competitive strategy. Thus, they conducted a study seeking to identify, together with the audit firms, which were their strategies for adding value for the Client as well as obtain information about the customer satisfaction achieved with these services. The research was carried out in 2001 covering the cities of Fortaleza, Recife and Salvador. As per their conclusion, the study indicates the need for the auditors to incorporate, the list of required attributes intuitively among which they cite: personal skills, technology and strategic understanding of the client's business. Thus, in other that the auditor would meet the client's expectation for the work done; differences must be added into the services, captured through a deep understanding of customer needs. Efforts to gain and maintain client must be based on ethics and professional technical quality seeking to identify which services effectively create value for users.

These authors believe that working from the client's perspective is a new dimension to the independent auditors, accustomed to think like outsiders to the process and takes greater effort to understand clients' businesses. Noteworthy that now the auditor is part of the business aiming to achieve broader objectives of the company.

3 METHODOLOGY

Given the initial character of this research on a global perspective, this study is characterized as exploratory. Assume the neo-positivist epistemological context in which one seeks in its beginning to show a theoretical framework in order to understand the phenomenon of strategic alignment of the auditor-client, and latter seek empirical evidence to support or refute the hypothesis of existence of alignment between the competing priorities of auditors and their clients.

In all, the study is as descriptive work in that it gives room for qualitative and quantitative analysis on the data gathered.

Thus, as a qualitative approach, it adopted the strategy of content analysis of theoretical models presented on the main themes that were gathered in the literature related to strategic alignment and competitive priorities with relationships to auditor-client, among others.

In qualitative research focusing socio-historical one does not investigate the reasons for the results, but get "the understanding of behaviour from the perspective of the subjects" Bogdan and Biklen (1994, p.16). Still, the same authors emphasized the characteristics of qualitative research: the direct source of data is the natural environment which the researcher constitutes the principal instrument.

In the quantitative approach, we used descriptive procedures as basis of analysis and

production of inferences in sampled data bases. The approach used is hypothetical-deductive, that parts from the assumptions of Popper (1975), in which we make initial conjectures that then tested empirically.

3.1 Period of research and scope

The period of research was August through October 2012 and it covered the Regions of Lombardy, Emilia-Romagna, Lazio, Piedmont, Veneto and Liguria and it needed being face-to-face interview whereby one had to travel north / south Italy.

The study is composed of a non-probabilistic purposeful sample of 8 independent audit firms and their respective 8 clients.

Suffice it to say that it involved a non-probability sample of audit firms, truly characterized as sample, whereas they were chosen deliberately because the universe of four independent audit firms (*big-four*) highest rated in the world can just be counted on our finger tips, it ends up being a bigger coverage of the audit firms.

Regarding the sampled companies, they are larger organizations chosen purposefully. Worth mentioning that we had a collaboration of the *Confindustria* - Confederation of Industries of the regions of Forli and Cesena to arrange for the interviews with the Clients.

3.2 Data gathering and processing

This study used unstructured questionnaires to collect data from audit partners of the *big-four* firms spread around Italy which was done face-to-face. The same approach applied to the clients (independently) through the executives who effectively participated in the day-to-day operations and strategies of their organisations that influence the choice and nomination of auditors.

4 DATA ANALYSIS AND INTERPRETATION OF RESULTS

Data collected have been treated in two ways: a) Descriptive analysis of some structured questions furnished by the respondents and, b) Content analysis of qualitative data reported voluntarily with comments by respondents; and the analysis proceeded by inserting data collected into *NVivo* - Qualitative data analysis software considering categorization and classification of data aiming at observing phenomena, the expressions and symbols that were represented.

4.1 Descriptive Statistics and the Samples properties

As mentioned, the data collected in this study consisted of responses from 8 auditors of Big-four Audit firms predominantly Managers and/ Audit Partners and 8 Clients predominantly Executives and Directors of big organizations who had a say on the choice of auditors or their nomination. The summary of their characteristics can be found in Table 1 Panels A, B and C. The male gender dominates Auditing profession with 87.5% and also 75% from the clients' side. Data in the table shows that the respondents are persons whose age ranges from 40 and above 50. Auditors and the clients in the majority individually accumulate a wealth of experience spanning over two decades which is highly suggestive of their professional calibre. Their areas of concentration extend to all works of life and covered major regions of Italy.

Panel A: Gender of Respondents

	Auditors (n=8)	Clients (n=8)
Male	87.5%	75%
Female	12.5%	25.5%
	100%	100%

Panel B: Age group of the Respondents

	Auditors (n=8)	Clients (n=8)
<34		
35 - 39		
40 - 44	37.5	25.0
45 - 49	50.0	25.0
>50	12.5	50.0
	100%	100%

Panel C: Experience of the respondent, concentration and region

Audit/ Client	Years of Experience	Concentration	City
A1	22	Financial industry	Milan
A2	11	Product&services	Parma
A3	32	Manufacturing	Bologna
A4	22	Financial industry	Rome
A5	21	Product&services	Turin
A6	34	Manufacturing	Modena
A7	35	financial industry	Verona
A8	30	product&services	Genova
C1	33	Drilling	Cesena
C2	21	Wood Industry	Modigliana
C3	24	Banking	Milan
C4	6	Services	Rimini
C5	25	Power	Piacenza
C6	22	Services	Reggio
C7	12	Confederation	Forli
C8	26	Agric-Cooperative	Cesena

As could be observed in Table 2 and Table 3, showing the auditors' responses "A" and "C" showing the clients' responses respectively, we note that competitive priorities converges to alignment.

For the Auditors, we observe in Table 2 the distribution of priorities given by the respondents.

Table 2 – Distribution of Auditors within competitive priorities

Priorities	CompPrio Quality	CompPrio Price	CompPrio Ethics	CompPrio Benefit Realisation	CompPrio Versatility	
1st	2	2	4	0	0	8
2nd	3	1	0	1	3	8
3rd	2	1	1	2	2	8
4th	1	1	3	3	0	8
5th	0	3	0	2	3	8
	8	8	8	8	8	

As for the Clients, we observe in Table 3 the distribution of priorities given by the respondents. What looks very curious is none of the clients chose ethics as the first to be considered for nomination of the auditors.

Table 3 – Distribution of Clients within competitive Priorities

Priorities	ComPrio Quality	ComPrio Price	ComPrio Ethics	ComPrio Benefit Realisation	ComPrio Versatility	
1st	3	4	0	0	1	8
2nd	2	1	2	2	1	8
3rd	0	1	4	3	0	8
4th	0	1	2	2	3	8
5th	3	1	0	1	3	8
	8	8	8	8	8	

Thus, in order to position in respect to which competitive priorities have been voted according to relative importance, one sum up the scores for the auditors as in table 4.

Table 4 - Statement of responses competitive priorities of the Auditors

Audit Response	CompPrio Quality	CompPrio Price	CompPrio Ethics	CompPrio Benefit Realisation	CompPrio Versatility
A1	2	1	5	3	4
A2	3	1	5	2	4
A3	4	5	2	1	3
A4	5	3	2	4	1
A5	5	4	2	3	1
A6	4	2	5	1	3
A7	4	5	3	2	1
A8	3	1	5	2	4
$\sum_i^m A$	30	22	29	18	21

Thus, we observe that *Quality* carries the vote with 30 whereas *Ethics* follows as the second with 29 and the least voted was *Benefit realisation* with 18.

Therefore, considering that criterion marked 1 has least priority and with 5 the highest priority, we will have the rearrangement of the positioning with matrix showing the importance the Auditors give to the criteria, where the letters show the first character of the each competitive priority.

$$A = \begin{bmatrix} 1 & B & \dots & 18 \\ 2 & V & \dots & 21 \\ 3 & P & \dots & 22 \\ 4 & E & \dots & 29 \\ 5 & Q & \dots & 30 \end{bmatrix}$$

In the same manner, in Table 5 for the clients, we observe that *Price* carries the vote with 30 were *Quality* follows as the second with 26 and the least voted was *Versatility* with 18.

Table 5 - Statement of responses competitive priorities of the Clients

Client Response	CompPrio Quality	CompPrio Price	CompPrio Ethics	CompPrio Benefit Realisation	CompPrio Versatility
C1	4	5	3	2	1
C2	5	1	3	4	2
C3	1	5	2	3	4
C4	5	2	4	3	1
C5	1	3	2	4	5
C6	1	5	4	3	2
C7	4	5	3	2	1
C8	5	4	3	1	2
$\sum_i^m c$	26	30	24	22	18

Therefore, represented in the relationship matrix showing the importance the Clients “C” attributed to the criteria we find as follows:

$$C = \begin{bmatrix} 1 & V & \dots & 18 \\ 2 & B & \dots & 22 \\ 3 & E & \dots & 24 \\ 4 & P & \dots & 30 \\ 5 & Q & \dots & 26 \end{bmatrix}$$

Thus, comparing the competitive priorities stated above, we accept the hypothesis that there is no association of competitive priorities more valued by the auditors aligned strategically with the clients. In other words, auditors and the clients are not aligned with their competitive priorities.

4.2 Qualitative Analysis

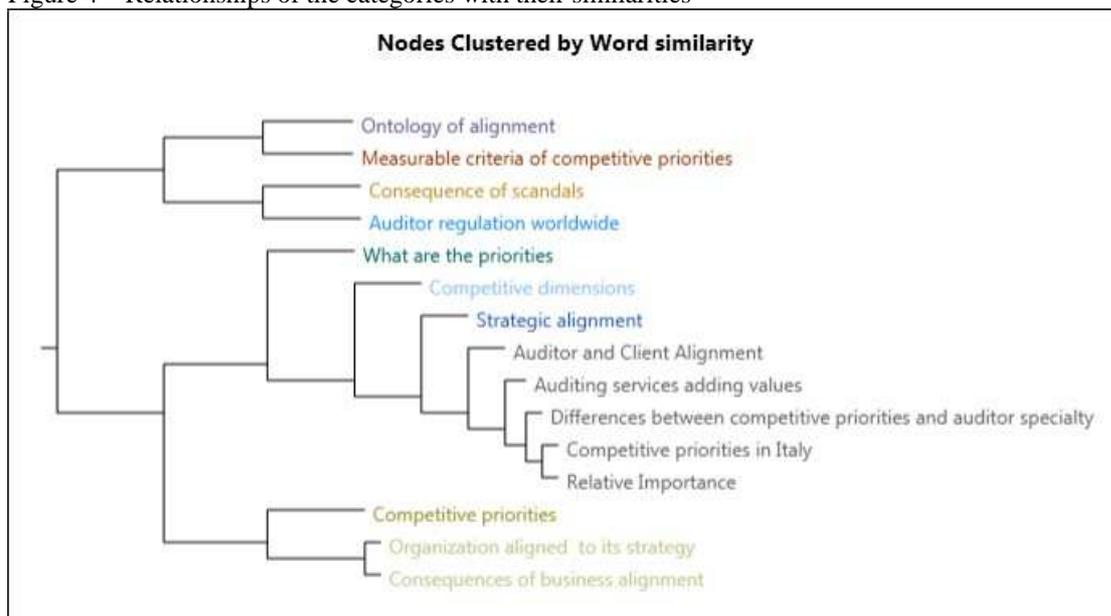
The analysis considered the qualitative aspects which involve the content analysis of the data gathered from unstructured questionnaires which were mostly from additional comments given by the respondents and also the literature. As already cited, the *Nvivo* - qualitative analysis software was used in the categorization and classification of data. Thus, the Pearson correlation coefficient was run considering the word content. On this, results show a significant relationship among the codes predominantly drawn from the literatures to support the qualitative analysis as in Table 6.

Table 6 Relationship of the Auditor/Client competitive priorities code

Node A	Node B	Pearson correlation coefficient
Nodes\\Consequences of business alignment	Nodes\\Organization aligned to its strategy	1
Nodes\\Relative Importance	Nodes\\Competitive priorities in Italy	1
Nodes\\Differences between competitive priorities and auditor	Nodes\\Competitive priorities in Italy	1
Nodes\\Differences between competitive priorities and auditor	Nodes\\Relative Importance	1
Nodes\\Competitive priorities in Italy	Nodes\\Auditing services adding values	0,940289
Nodes\\Relative Importance	Nodes\\Auditing services adding values	0,940289
Nodes\\Differences between competitive priorities and auditor	Nodes\\Auditing services adding values	0,940289
Nodes\\Auditing services adding values	Nodes\\Auditor and Client Alignment	0,747201
Nodes\\Competitive priorities in Italy	Nodes\\Auditor and Client Alignment	0,741702
Nodes\\Relative Importance	Nodes\\Auditor and Client Alignment	0,741702
Nodes\\Differences between competitive priorities and auditor	Nodes\\Auditor and Client Alignment	0,741702
Nodes\\Auditing services adding values	Nodes\\Strategic alignment	0,671751
Nodes\\Competitive priorities in Italy	Nodes\\Strategic alignment	0,661907
Nodes\\Relative Importance	Nodes\\Strategic alignment	0,661907
Nodes\\Differences between competitive priorities and auditor	Nodes\\Strategic alignment	0,661907
Nodes\\Measurable criteria of competitive priorities	Nodes\\Auditor and Client Alignment	0,640822
Nodes\\Auditor and Client Alignment	Nodes\\Strategic alignment	0,616545
Nodes\\Competitive priorities in Italy	Nodes\\Competitive dimensions	0,595149
Nodes\\Relative Importance	Nodes\\Competitive dimensions	0,595149
Nodes\\Differences between competitive priorities and auditor	Nodes\\Competitive dimensions	0,595149
Nodes\\Auditing services adding values	Nodes\\Competitive dimensions	0,563609
Nodes\\Competitive dimensions	Nodes\\Auditor and Client Alignment	0,412535
Nodes\\Competitive dimensions	Nodes\\Strategic alignment	0,373211
Nodes\\Competitive priorities in Italy	Nodes\\What are the priorities	0,251821

Still on the processing of the categories, data expresses similarity of the codes as in Figure 4. Noteworthy, the categorical relationships were arranged through categories that are associated with the nearest neighbour as per expression.

Figure 4 – Relationships of the categories with their similarities



Still, by analyzing the codes as above, we create Table 7 describing the categories, the process of competitive priorities and the categories involved.

Table 4 – Description and Interpretation of Categorized Results

Process of generating competitive priorities	Category	Description of the essence of the category
Consequence of scandals	COS	The scandals felt in capital market had some influences on business processes and auditor/client relationships. Measures were implemented by all stock markets to safeguard asset and the interest of stakeholders
Auditor regulation worldwide	ARW	Auditors are going through tough regulations worldwide considering SOX in US and CONSOB in Italy.
Watch the Key Priorities	WKP	In order to create amicable environments for work auditor and clients would have to watch their key competitive priorities for monitoring purposes
Relative Importance	RMP	Eventually, everyone associates different importance to all competitive criteria that feature in literature
Measurable criteria of competitive priorities	MCP	What are the scores to be attributed to each criteria, say: from 1 to 5?
Organization aligned to its strategy	OAS	strategy tends to provide better information for decision making, generating reports in a timely manner, that translate into valuable data to stakeholders
Auditing Services adding values	SAV	In the time of crisis, auditing values must add value to the clients to make a difference
Ontology of alignment	OAL	Alignment indicates it as action or effect of aligning towards axis direction considering client/auditor strategy or using all networks that are available
Consequences of business alignment	CBA	There is a favourable environment to tackle crisis auditor and clients could reach agreement through the consequences of business alignment
Competitive dimensions	CPD	The criteria used as dimensions in this study are cost, quality, ethics, benefit realisation and versatility
Competitive priorities	CPP	
Competitive priorities in Italy	CPI	Considering the peculiarity of Italy ethics have been cited as important. Prior studies indicate items such as Flexibility,
Differences between competitive priorities and auditor speciality	DPS	Specialisations be it on the side of client or the auditor impacts competitive priorities.

As a detailed analysis of the responses connected to the categories, we expatiate as follows with enlightening comments given by the respondents. Observe that any number after “A” shows a comment from Auditor and “C” from the Client respectively:

Consequences of Scandals - COS

The expression: consequences of scandals elucidates the positioning of the respondents as per impacts of deregulation. For instance, Auditor A1 affirms that: after Anderson’s lesson, ethics has not been negotiable in Italy. C2: ethics is inbuilt in the quality delivered to us; in fact it is the yardstick for our nominating the auditors.

Auditing Regulation Worldwide – ARW

Concerning the regulation of the auditing activities, respondent C4 sees a difference. He emphasized: as we are from Food Industry region of Italy, for the cooperatives, we are obliged to change our auditors every 6 years as against 9 years for other organisations; this distinguishes our auditors for time saving.

Watch Key priorities – WKP

The clients have signalled the concern of the auditors to watch their key priorities as they exercise their activities. Client C2 observed that: as we are the leader of boutique specialisation in Italy, and owing to the reduction of our turnover, price is probably becoming very important as we negotiate with the big-four for nomination.

Relative Importance - RMP

A5: the importance given to price will reduce in a couple of years to come. C2 does not seem to be in agreement with the former, he says “price is becoming important

particularly as a result of crisis, he adds, some time ago, quality used to gain but now price is winning”.

Measurable criteria of competitive priorities – MCP

C1: ethics looks abstract and should be on umbrella level, thus suggest a discussion upon concrete criteria.

Organization aligned to its strategy

A5: Independence between market and strategy is losing accord, in fact, in the last 4 to 5 years we have seen a decrease in fees. He continues, we observed that one of the big4s has decided to adopt an aggressive strategy in order to conquer the blue-ship clients by offering a low price.

Auditing Services adding values - SAV

A5: the market is too fast so Just-in-time (client demanding prompt response for specialised skills). C4: good audit firm contributes to the growth of our company by giving insights, innovation and suggestions for future trends. C2: A problem of the audit firms is they are not light; they are very rigid in their approaches thereby blocking the activities of the companies during their stay and impacting the organisation. The heavier they are, more costly they become; we want to reduce cost. C8: it is important that in the final stages of the financial audit, the senior management be able to match data with the partners of audit firm on the most important or sensitive issues, junior auditors take our time. A5: even though clients expects more values from the auditors, we are handicapped as our works have to be tailored to suit regulations so, versatility is more directed to consulting than pure financial auditing.

Ontology of alignment – OAL

The ontology of auditor-client alignment seems to be shaky. If alignment means work hand in hand for both sides to meet up their business objectives and respecting Service Level Agreements, the question is, do auditors seem to comply with agreements with team they provide for the services? As emphasized by C8: usually the auditing companies are characterised by a high turnover of their Junior colleagues, this implies that every year we need to start from scratch with new Junior who come to do audit, we therefore need auditors who have dedicated staff to safe our time.

In other words, the clients seem to complain about the paradox of paying to be certified and also providing resources to assist the auditor in the course of audit in order to reduce fees. In the era of cost reduction and cut in staff strength, companies are facing problems and have not been able to withhold standards with abundant human resources.

Consequences of business alignment – CBA

There is probably a favourable environment to tackle crisis which is faced by the European countries by auditor and clients should they reach agreement through viable alignment.

Competitive dimensions – CPD

A2: market does not allow big4 to be 100% for we are competing 360% whereby *Price* is decided by the market. However, the respondent continues, even though there are predominantly SME firms in Italy, there are a limit as to follow SME if they do not accept price say € 10,000 or above since our insurance coverage is high. A4: clients are aggressive in the first year when they want to save cost.

Competitive priorities – CPP

A4: price should not be considered as a priority instead quality, which gives you an impetus to ask for more fees. This is in agreement with the comments of C1: it is not the price that guides the selection of an auditor.

Competitive priorities in Italy – CPI

A4: Ethics is very important in Italy in particular most of the business here are family owned so they are not well organised and demands more attention in terms of control and consequently the audit plans go the same way.

Differences between competitive priorities and auditor specialty – DPS

A4: since Italy became a nation at the end of 18th century, we still work on regional cultures (South, Naples and others were part of Spain; middle belt, a bit of Pontificate – Rome; North, Parma and others were owned by part France and Germany) this no doubt could contribute to build different competitive priorities for the specialisation of the regions.

5 DISCUSSION

The competitive priorities addressed in prior researches such as that of Boyer and Lewis (2002); Moori, Ghobril and Marcondes (2009) among others, and the ones listed to guide the interviews do not seem to be the only ones that concern the auditors and the clients in their corporate environments. During the survey we noted the following competitive priorities different from those cited so far in this research. They are presented considering their relative importance and priorities associated with the best practices of each company and auditors researched for maintaining the auditor-client relationship, see Table 8.

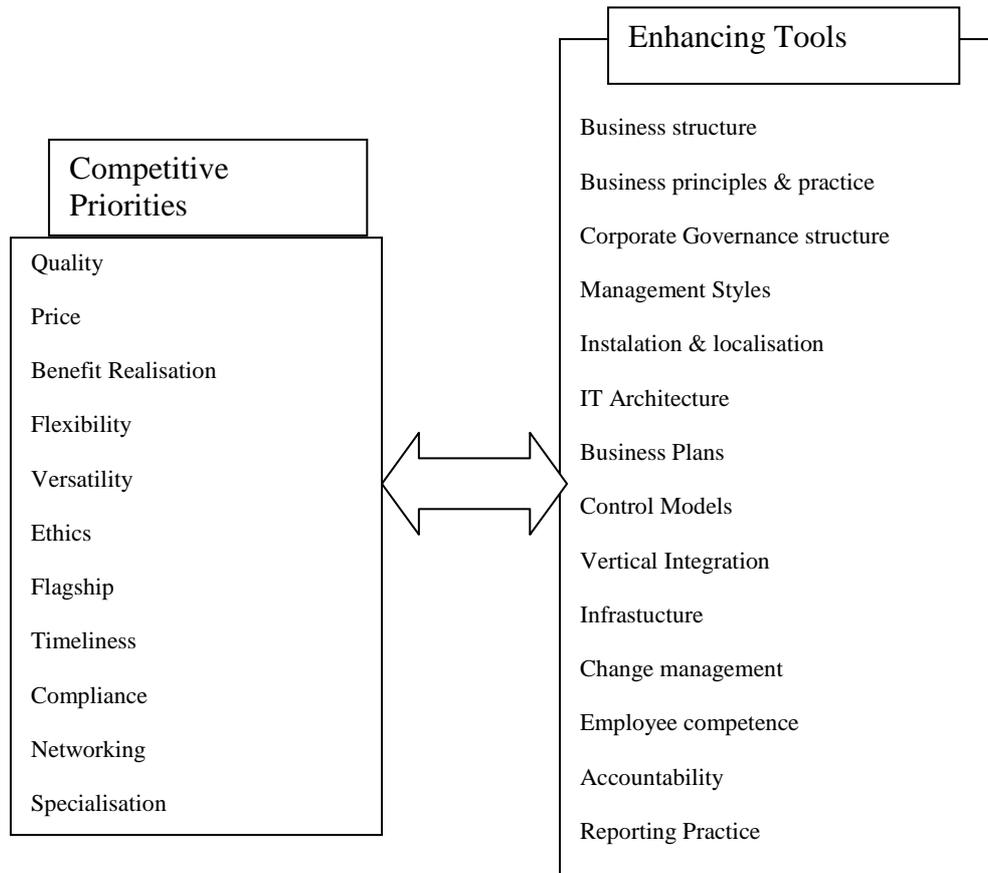
Table 8 - The competitive priorities associated with the best practices of the respondents/companies surveyed for maintaining auditor-client relationship

Audit/ Respondent	Client	1st	2nd	3rd
A1		Leadership	Flagship	Compliance
A2		Profitability	Partnership	Sustainability
A3		Networking	Multidisciplinary	Knowledge Sharing
A4		Ethics	Marketability	Talent Development
A5		Timing	Specialisation	Flexibility
A6		Business Knowledge	Knowledge Sharing	Transparency
A7		Flagship Client	Ethic	Knowledge Transfer
A8		Profitability	Ethic	Business Profitability
C1		Flexibility	Modesty	Positive Attitude
C2		Light Approach	Flexible	Polite
C3		Knowing Business	Added Value	Availability and Responsiveness
C4		Cooperation	Experience	Maturity
C5		Added Value	Confidentiality	Ethic
C6		Partnership	Ethic	Globalisation
C7		Knowledge Sharing	Ethic	Networking
C8		Experience	Up-to-date	Responsiveness

Therefore, considering the aforementioned additional competitive priorities one is able to provoke the following model in Figure 5 where certain enhancing tools help gear

competitive priorities toward alignment to strategies.

Figure 5 - Provoked Model of Competitive Priorities for Auditor / Client



With regard to specialisation, respondent A7 emphasizes the fear of not being exposed to ignorance by accepting services from a customer, in fact, he stressed that that makes one forfeit a proposal. However, C2 emphasizes that besides the aforementioned competitive priorities, cares for the gap that exists between knowledge development and the job performed by the auditors, in other words, worried about professional immaturity in the use of junior auditors in performing services.

When verifying the relationship between strategic alignment audit firms regardless of size, big-four and their customers, what scares us is the strategy which seems to generate a lot of grudges among the big-four firms. In fact, we do not know where this is going to end. We hope that it does not lead to further deregulation.

Thus borrowing a leaf from the analysis done earlier on, and showing the closeness of the scores of *Quality* with respect to *Price* on the client's side, the meaning we read to this is that, the clients are pursuing price reduction but do not want to lose grip of quality.

In this context, the stage in which the study is at this moment makes us stress on the following challenging questions: Are the independent audit companies really aligned to their customers based on the competitive priorities? If so, what makes sustainability of the relationship the function of values of attributes of the Auditor's or Clients culture?

Final remarks

The present study investigates the strategic alignment of the independent auditors (big-four) firms and their respective clients in Italian environment. Like other companies, independent auditor's aim at profitability and optimises resources while minimising risks. Thus, the auditing partners are questioned about the relationship with their clients and the

more appropriate strategies for competitive alignment.

The competitive priorities presented by the literature could be resumed in: Quality – Working in accordance with the terms of reference and engagement agreements; Price – Offering the services at affordable price and costs relative to competitors; Benefit Realisation - Presenting results satisfactorily in a timely manner and decision-oriented; Versatility – Maintaining presence through professional support when needed and maturity to meet up service requirements and diverseness of approach as needed by services. Suffice it to say that Ethics – Uphold moral conduct in business relationships and professional / societal responsibility through accomplishment of standard of regulatory bodies and permeates all other competitive priorities, including culture appearing in the umbrella level.

However, depending on the area of expertise of the auditor (financial statements audit, forensic auditor, etc.) this influences the competitive priorities which can be totally different taking the same auditing firm. On this same issue, it would be important to note that regional location of the audit firms and clients play the same role on the positions of competitive priorities as a result of their regional locations and their cultures in Italy.

Therefore, based on the data collected and tests performed, we conclude that there is no association between competitive priorities most valued by auditors strategically aligned to its clients.

It is possible that this finding be related to a new position of auditor / client after the damage suffered in the past decade and partially related to the crisis Europe is passing through.

Noteworthy, during the research one noticed that some of the auditing firms were bearing grudges against one another because one of the peers have adopted excessively aggressive market strategy of low fee and probably low cost. This strategy of low fee in our views may have unprecedented impact on quality in the long run. Since the job of independent auditing is standardised and meant to satisfy the rules of compliance, auditing activities generally do not have shock absorbers to withstand probable increase in audit hours necessary to satisfy quality audit services if not stated in the audit charter. As such, one is afraid that this does not lead to further deregulation problem, left to know that in the current competitive environment, the future is not bright and someone would eventually pay the price of this rowdy situation in which the stakeholder would eventually be penalised.

What do one think could help spur changes within auditors toward alignment with the clients, probably rethinking of a perceived quality that the Big 4 tends to bear which makes them distant themselves from the realities of the Italian business society which is currently low profile.

Finally, it is important to observe that generalization with the research sample may be unfounded thereby living rooms for future researches to explore.

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