

RESPONSIBLE LEADERSHIP FOR AUDIT QUALITY HOW DO THE BIG FOUR MANAGE THE PERSONAL ETHICS OF THEIR EMPLOYEES?

Cathy Krohmer¹, IEMN-IAE

and

Christine Noël², AUDENCIA NANTES

Abstract:

The promotion of responsible leadership is seen within audit firms as a way to improve audit quality. The aim of this paper is to lead to a better understanding of the place of personal and professional ethics, which is a key element of responsible leadership, in Big Four management. What place do audit firms, and more specifically the Big Four, attribute to “ethical skills”? How far has this dimension been incorporated into their human resources management systems and processes? To answer this question we set out to highlight contrasts between the discourse of auditors with the human resources practices of two Big Four in France. Indeed, if ethics is considered as a key skill, it should therefore be evaluated and taken into account in such human resources practices as recruitment, training or career development. To this end, we adopt a qualitative approach based on 21 interviews with auditors, human resources managers and associates responsible for ethics, deontology and Corporate social responsibility in the Big Four. We have also collected internal and external documents used by human resources managers. This method is the object of an interpretative process based upon the structuration theory of Giddens. The results of this study initially reveal an apparent discordance between discourse related to ethical management and human resources practices. Furthermore, ethics-related human resources practices related are generally restricted to the identification of shortcomings in ethical competencies which are

¹ Cathy Krohmer is lecturer in IEMN-IAE Nantes.

² Christine Noël is associate Professor in Audencia Nantes School of management.

defined as being limited to the ability to effectively apply legal and organizational rules. This discordance can be accounted for by the difficulty in reconciling labour law and deontology. Personal ethical skills are mainly managed by the organisational structure of the Big Four and rules and processes have been developed with the sole aim of limiting the audit risk and guaranteeing audit quality. Moreover, ethical competencies are managed indirectly and promoted by the idea of responsible leadership and several incentives to exemplary behaviors. We conclude the article by providing the way forward for the training and development of future responsible leaders.

Key words: Audit quality, Big Four, Ethical skills, Competency based management, Responsible Leadership.

Introduction

The evaluation of audit quality is a difficult task because of the impossibility for researchers to watch *in vivo* audit tasks being carried out within the organization. Moreover, audit quality is « invisible » because the end-product of auditors' work - the audit report — follows a standard format which offers very few possibilities of differentiation (Watts and Zimmermann, 1983; Citron and Tafler, 1993). Therefore, studying the audit report as a determinant of audit quality is of limited use to deal with this difficulty arising from the nature of audit process, researchers have tried to approach audit quality by studying the quality of the auditors themselves in terms of their competency. Auditors' competencies are not only technical but also interpersonal and ethical (Fortin and Martel, 1997; Herrbach, 2001; Ponemon and Gabhart, 1990; Richard, 2006; Bonner and Lewis, 1990; Lee and Stone, 1995; Libby and Thorne, 2004; Libby and Tan, 1994). According to Sweeney (1995), while technical skills are essential, the moral reasoning of auditors governs their professional judgment and limits audit risk.

To this end, the promotion of responsible leadership, of which ethics is a key element, is taken to account by audit firms as a way to improve audit quality. A growing body of research investigates ethics and auditing. Increasing value is being placed on the humanist qualities of auditors. The development of methods to understand ethical reasoning and to assess ethical performance is a crucial stage in improving audit quality. However, no study focuses on the tools and processes set up by human resources management in order to promote ethical behaviors in auditors. According to Power (2003, 379), the difficulty of collecting data on auditors' behavior is the main reason for the relative scarcity of research on auditing compared to other areas of management. According to Humphrey (2008), although we know a lot about matters of audit quality, very little is known about the practical aspects of auditing.

Exploring the “back stage” of practice in auditing is a real challenge for researchers. In particular, methods of measuring and developing ethical skills remain underdeveloped.

The aim of this paper is to contribute to improvement of audit quality by providing a better understanding of the management of personal ethical skills in the largest accounting firms (i.e. the “Big Four”). The research question is following: What place do audit firms, and more specifically the Big Four, attribute to “ethical skills”? How have the Big Four adapted human resources management systems and processes to foster ethical skills and promote ethical behavior of their employees? Indeed, if ethics is considered to be a key skill, it should be evaluated and taken into account by human resources practices such as recruitment, training and career development.

The relevance of this question of research can be justified by the fact that auditors are called upon to give social legitimacy to their clients. According to Zucker (1986), Power (1994) and Armstrong (1991), financial audit is a social mechanism of control whose objective is to reproduce trust. However, to be able to fulfill this leading role of the guardian of the reliability of economic transactions, they need to be ethically irreproachable (Shapiro, 1987; Pasewark et al., 1995). For this reason, Big Four have made important changes to their structure in order to comply with the new requirements of the Sarbanes-Oxley Act (2002) and Law of financial security (2003) in France introduced to restore confidence after Enron scandal. They have also focused increasingly on the ethical behavior of their employees. A mere description of the process and the rules developed by audit firms is, however, not sufficient to gain a good understanding of the way auditors have integrated and applied in practice the values claimed by the Big Four.

In order to investigate this subject we adopt a qualitative approach based on 21 interviews with auditors, human resources managers and associates responsible ethics, deontology and Corporate Social Responsibility (CSR) in the Big Four and internal and

external documents. This qualitative approach is the object of an interpretative process based upon the structuration theory of Giddens. Giddens' structuration theory is used in this study as a framework to apprehend the way audit firms have integrated individual dimension of ethics and manage the ethical skills of their employees. Indeed, Dillard and Yuthas (2002) point out that research has failed to recognize the social context of individual actions, necessary to understanding ethical behavior in auditing. To this end, we set out to highlight contrasts between the discourse of auditors with the human resources practices of two Big Four in France. The results of this study initially reveal an apparent discordance between discourse related to ethical management and human resources practices. Furthermore, ethics-related human resources practices are generally restricted to the identification of shortcomings in ethical competencies which are defined as being limited to effectively apply legal and organizational rules. This discordance can be explained by the difficulty in reconciling labour law and deontology. Individual ethical skills are mainly managed by the organisational structure of the Big Four. Rules and processes have been developed to limiting audit risk and to guaranteeing audit quality. Moreover, ethical skills are managed indirectly and promoted by the idea of responsible leadership and incentive to exemplary behavior.

This paper is organized as follows. First, the literature addressing responsible leadership and auditors' ethical skills is reviewed. Second, our theoretical framework is described. This is followed by the methodology used to study the tools and the processes set up by human resources managers in order to foster ethical skills in auditors. Then, the fourth section presents and discusses the results. The final section provides a brief summary, directions for further research and points the way forward for the training and the development of future responsible leaders in audit firms.

1. Literature review

Ethics as a part of responsible leadership

According to Pless and Maak (2005), global business environments confront leaders with rising expectations from stakeholders and they are being faced new challenges. Firstly, leaders have to address the question of diversity by creating a multicultural working environment. They also have to develop sustainable relationships with different categories of stakeholders who have become distrustful since the recent business scandals and the financial crisis. A further challenge is that of becoming cosmopolitan corporate citizens who care about the environmental and social consequences of their action. Finally they must be able to cope with ethical dilemmas. These new challenges justify the need for responsible leaders to “build and sustain a business that is of benefit to multiple stakeholders and not just to a few risk-seeking individuals” (Maak, 2007: 329). Responsible leadership is a “value-based and through ethical principles driven relationship between leaders and stakeholders who are connected through a shared sense of meaning and purpose through which they raise one another to higher levels of motivation and commitment for achieving sustainable values creation and social change” (Pless, 2007: 438). A responsible leader is driven by ethical principles (Ciulla, 1995, 1998, 2006; Pless and Maak, 2009b). According to Lynham and Chermack (2006: 77), responsible leadership demonstrates effectiveness, ethics and endurance. In this perspective ethical behavior can not be disassociated from responsible leadership which requires “assessing and weighing the impact of organizational behavior on all relevant stakeholders” (Pless and Maak, 2005). Ethical decision-making, which means treating the “Humanity of stakeholders” as ends rather than means as merely (Bowie, 1999), is a part of responsible leadership (Pless and Maak, 2006) which includes norms, values and principles (Pless, 2007: 438). According to Waldman and Galvin (2008: 328), responsible leadership is “broader, more strategically oriented” than ethical leadership. Indeed, a focus on ethics “could get confused with values of particular religions on the part of the leader that may not affect others, while a focus on responsibility directs attention toward the particular others to whom a

leader may be responsible”. We don’t share such a point of view. Following Jones (1991) and Bartels et al. (1998) we are deeply convinced that ethical issues necessarily have two criteria: volition and consequences. First, the individual dealing with an ethical issue must have a choice. Secondly, his choice must have consequences for the others. If the action of an individual has no consequences for the others, it can not be considered an ethical issue.

Some studies have defined more precisely the key characteristics of responsible leaders. According to Pless (2007: 450) becoming a responsible leader requires not only cognitive abilities but a combination of cognitive, emotional, relational and moral qualities. Responsible leaders show interpersonal qualities in interacting with the different stakeholders and generating fair solutions (Pless and Maak, 2009a: 69). They need to be cooperative and empathetic (Pless, 2007: 450) in order to build and rely on social structures and resources both internal and external to the organization, which allow them to facilitate responsible actions (Maak, 2007: 331). But there is “both limited theoretical as well as empirical knowledge about ethical leadership available, let alone a model on ethical intelligence” (Pless and Maak, 2005: 13). Ethical intelligence depends on three ethical qualities: moral awareness (or ethical sensitivity), reflection skills (abilities to judge from a critical distance) and moral imagination (ability to develop new structures of thinking). Following the ethical decision-making model of Rest (1986), the existing literature addressing the ethical intelligence of leaders focuses predominately on the individual as a conscious decision-maker and on the measure of his ethical sensitivity. Rest describes ethical decision-making as a four-step process which includes the recognition of a moral issue, the evaluation of the information and the available alternatives, the intention to make a decision and the ensuing behavior or decision itself. Moral awareness is considered as playing a crucial role in different steps of the decision-making process. Most of the studies on ethical behavior are based on Kohlberg’s theory. Kohlberg (1969) postulates that cognitive structures and interpretative processes

determine ethical decisions. He proposes three broad levels of sophistication in ethical reasoning. The first is called the “pre-conventional level”. On this level, individual decisions are determined by self-interest. The second level is the “conventional level”. The individual is concerned about the expectations of others and relies upon rules and regulations to determine what is right. On the third level, the post-conventional level, the individual decides what is right or wrong using universal ethical principles such as justice and fairness.



Figure 1 The Ethical Decision-Making Model of Rest (1986)

In the field of accounting and auditing, many studies use Kohlberg’s theory (1969) and the Defining Issues Test of Rest (1979) to calculate a P-score, correlated to ethical sensitivity. These studies set out to measure the personal ethical dispositions of auditors and how moral development can affect auditors’ attitudes. Windsor et Ashkanasy (1996) point out that ethical sensitivity has a direct influence on ability to resist the pressure of clients. They put forward a typology based upon the level of cognitive development and they distinguish three categories of auditor: « self-governing », « pragmatic », and « accommodating ». Other studies have focused on specific qualities necessary for auditors’ activities (Bonner and Lewis 1990; Libby and Tan 1994). Libby and Thorne (2004) propose an ethical mapping of auditors based upon Pincoff’s typology of virtues (1986). Some other studies investigate the association between auditors’ personal values and the likelihood of their identifying an ethical issue (Patterson 2001; Shaub et al. 1993). Finally, interactionist models suggest the importance of character in influencing auditors’ ethical decision-making. For example, Tsui and Gul (1996) find that auditors’ locus of control (Rotter, 1966) interacts with their intention to act ethically.

These studies put forward a cognitive approach to individuals' ethical orientations and do not enable us to understand how organizational attributes or situational variables affect the moral behavior of learders and promote responsible leadership. Existing research suggests the importance of the work context including firm culture in influencing auditors' ethical behavior. Sweeney and Roberts (1997) suggest that the organizational environment plays a role in auditors' intention to act ethically. Additionally, Lord and DeZoort (2001) point out that social influence pressures may counteract the effect of organizational commitments to promoting auditors' ethical intentions. However, much remains to be studied, particularly an investigation of the influence of the ethical climate and human resources practices within the audit firm on ethical behavior needs to be carried out. For this reason, we propose to contribute to a better understanding of the development of future responsible leaders in audit firms by the analysis of the management of 'ethical skills' in Big Four.

Ethics as a skill

White (1959) introduced the term of competency to describe the personality characteristics associated with superior performance and high motivation. Following this definition, McClelland (1973) developed a test to evaluate competency viewed as an underlying characteristic of an individual, causally related to criterion-referenced effective and/or superior performance in a job or situation (Boyatzis, 1982; Spencer and Spencer, 1993). Rodriguez et al. (2002) point out that in rapidly changing business environments, organizations are recognizing the value of a workforce that is not only highly skilled and technically adapted, but more importantly a workforce that can learn quickly, communicate effectively and foster interpersonal relationships. In this context, traditional job analysis procedures may be unable to continue to play a central role in the new human resources management environment (Sanchez, 1994). Since the late 1990s, competency-based Human Resources Management has become widespread in organizations (Allbredge and Nilan, 2000;

Athey and Orth, 1999). Competency-based HRM is used as well as selection, recruitment, training, leadership etc. (Dubois and Rothwell, 2004). Despite this opposition, recent research shows the articulation of these two models (Shippmann et al., 2000; Lievens et al., 2004). In a strategic human resource management, the aim is to align human resource management practices to build employees's knowledge, skills, and abilities in an effort to support competitive strategies (Webel and DeMarie, 2005). The link between core competencies (Hamel and Prahalad, 1994) and individual competencies is made through competency modeling and competency assessment (Delamare and Winterton, 2005).

Fortin and Martel (1997) have used the expression "ethical skill" to determine the ability of a professional to produce ethical judgments. "Ethical skill" must not be confused with "ethical disposition" which represents "relatively stable individual characteristics pertinent to the outcome and the process aspects of moral issues" (Lau and Wong, 2009: 283). Ethical sensitivity and a need for formal rules are two ethical dispositions which have been identified as elements of the ethical decision-making process (O'Neil and Mone, 1998; Raja and al., 2004). "Ethical skills" means using combined resources to act, "in accordance with virtue, in order to find the better decision in a given situation" (Nillès, 2002).

Ethics has already been introduced as a key element in a competency model. Cheetham and Chivers (1996, 1998), developed an holistic model of professional competency, comprising of five sets of inter-connected competencies including cognitive skills (theory and concepts, as well as informal tacit knowledge gained through experience), functional competencies (skills or savoir-faire are qualities that a person who works in a given occupational area should be able to demonstrate), personal competencies (behavioral competencies defined as a relatively enduring characteristic of a person causally related to effective or superior performance in a job), ethical competencies (defined as the possession of appropriate personal and professional values and the ability to make sound judgements based

upon these in work-related situations) and meta-competencies, concerned with the ability to cope with uncertainty, as well as with learning and reflection.

By using the expression “ethical skills” we propose a new approach to ethics and responsible leadership as the result of an integrated dynamics of not only the individual but also collective traits. Indeed, the concept of ethical skill refers to a combination of these individual and collective resources in order to deal with a particular situation which implies a choice. These resources include data, information, expert systems, organizational routines, knowledge, motivation drivers and values. A skill depends on the context of its use and more globally on the organization. Many studies underline the effects of organizational attributes (the existence of codes of ethics, ethical policies, ethical climate) on individual ethical behavior (Kelly et al. 1989; Trevino, 1986, 1992; Trevino et al. 2006). Victor and Cullen (1988) defined ethical climate as a pervasive organizational characteristic that affects how organizational decisions are made. Ethical climate is “the shared perception of what behavior is right” and is “based on members’ perceptions of typical organizational practices and procedures involving ethics” (Bartels et al., 1998). Ethical climate is characterized by two elements: strength and dimension (Murphy, 1993; Rousseau, 1988). Strength refers to the extent of control over behavior in the organization. Does the firm send clear messages about the behaviors it expects? What are the rewards and the punishments related to ethical or unethical behavior in the employees? Dimension is the content of the norms and procedures controlling ethical behavior. Many recent studies (Fritzsche and Oz, 2007; Ambrose et al., 2007) have begun to analyse how the combination between individual and organizational attributes may affect employee ethical decision-making. According to Weber (2010) the ethical values embedded in the organization socialize employees and incline them toward ethical decisions and behaviors. Ambrose et al. (2007) explore how congruence between the personal values of the individual and those of the organization affects job attitudes. Alldredge

and Nilan (2000:137) analyse the leadership competency model developed by 3M. The first competency encompasses “ethics and integrity” and relies on a commitment to company values as a way of building trust. This competency implies caring about stakeholders’ interests i.e., being able to satisfy customers by superior quality, value, and service, providing the investors with a fair rate of return through sustained quality growth, respecting the social and physical environment and contributing to making 3M a company employees are proud to be a part of.

This type of study, setting out to analyse the relations between individual and organizational ethical attributes, is rarely carried out in the specific area of auditing. Nevertheless, studies about the ethical reasoning process indicate that individual cognitive dispositions and organizational factors both influence ethical decision-making (Jones (1991), Barnett (2001), Mencl and May (2008), Lau and Wong (2009)). As far as we know, only one study led by Pless and Maak (2009) focuses on responsible leadership in audit firms. They analyse the “Ulysses project” run by PwC to encourage responsible leaders within the firm. In our opinion, this hinders us to gaining an insight into ways of promoting ethical decision-making and responsible leadership in audit firms. We propose in this study to associate cognitive and social perspectives in order to define the ethical skills of auditors as an integrated set of individual as well as also collective traits which emerge within a community. To this end we propose to use the structuration of Giddens as a framework for our research design.

2. Theoretical framework

Our approach rests upon Giddens’ theory of structuration. This theory has been previously introduced to accounting and auditing literature by Macintosh (1994, 1995), Macintosh and Scapens (1990, 1991), Roberts and Scapens (1985), Dillard and Yuthas (2002), Coad and Herbert (2009), Englund and Gerdin (2008) and Busco (2009).

According to Giddens, social life is not the sum of micro-level activities but it can not be explained from a purely macro perspective. In the same way, ethical skills are neither the experience of the subject nor the existence of any form of societal totality, but social practices wherein the structure and the agency are synthesized. This balancing of agency and structure in Giddens' theory is referred to as the duality of structure. Social structures make action possible and at same time social action creates those structures. The structure refers to the various "codes" of and resources for social actions. The agency refers to the activities of individual members of the systems. The structure is both a medium and an outcome of the agency. It constrains but also enables the activity of individuals. "In structuration theory 'structure' is regarded as rules and resources recursively implicated in social reproduction; institutionalized features of social systems have structural properties in the sense that relationships are stabilized across time and space. 'Structure' can be conceptualized abstractly as two aspects of rules -- normative elements and codes of signification" (Giddens, 1984). Structure and agency are united by a recursive relationship thanks to modalities, which are the tools which make the translation of structure into action possible through interaction.

Giddens identifies three dimensions of the structure: signification, domination and legitimation. Structures of signification inform us of a person's function or a situation. It refers to the production of meaning. Structures of domination give important messages about the degree of power of the actors. Structures of legitimation refers to societal norms, define the appropriate code and associate sanctions in case of transgression. .

Giddens distinguishes three types of modalities: interpretive schemes, facilities and norms. The interpretive scheme can be seen as a framework in which people interact with each other. Facilities give particular people more power than others for instance, the possibility to punish or to reward others. Norms depend on the context and thus determine what is an appropriate manner for people to interact with each other.

Giddens analyses ethical behavior as a central component in socially integrating mechanisms which depends on the agent in person but also on the specific context within which he acts. Behavior is a function of a set of social structures combined with human agency. For this reason ethical skills cannot be properly understood without taking in account the cultural and social context. Ethical skills can be seen as the reciprocity of practices between agents and collectives across time and space. We propose in this paper to analyse how audit firms manage (develop, identify, and encourage) auditors' ethical skills. To this end, we focus on HRM and more specifically on competency-based assessment. This tool can be defined as one of the modalities of Giddens' structuration theory, and ethical skills are viewed as the result of the duality of structure as can be seen in figure 2.

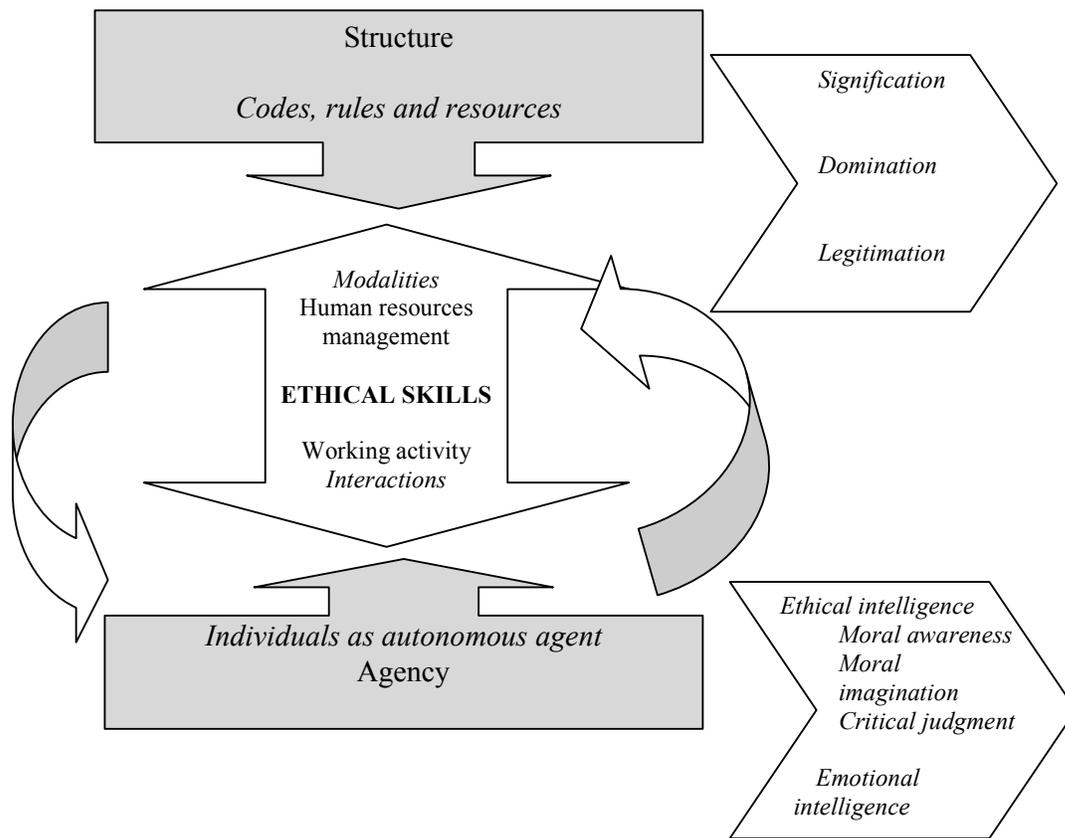


Figure 2: Ethical skills and the duality of structure

3. Methodology

We adopt a qualitative approach in order to investigate the way audit firms encourage responsible leadership. According to Humphrey (2008), only superficial consideration has been given to the potential of adopting qualitative methodological approaches whereas the task of audit research should be to engage much more closely with the social construction of audit practice. Gendron (2009) points out that qualitative research “is a relevant and legitimate mode of inquiry” for accounting. Indeed, qualitative analysis appears to be an appropriate approach to adopt in studying how audit firms encourage or not ethical decision-making and responsible leadership among their employees and associates.

We have chosen to analyse the way “duality of structure” operates within the Big Four. This implies apprehending the three dimensions of Giddens’ theory namely, structures, modalities and interactions. For this reason, we confront the discourse of auditors on skills perceived as essential to audit quality (agency) and the human resources management process and more specifically competency-based assessment (modalities), with the rules and codes developed by audit firms to guarantee ethical decision-making (structure). Methodologically, we have used a combination of internal and external document analysis and interviews to provide the richest possible data for the purpose of this study. As attitudes towards regulation and ethical values vary across cultures, we have chosen to limit the scope of our study to one country, France. We have decided to focus on the Big Four which are the main actors on the audit market in France (all the companies listed in the CAC 40 have chosen at least one of the Big Four as their auditor). Moreover, some recent studies reveal that auditors in Big Four report lower commitment to auditor independence than do others in public accounting (Gendron et al. 2006). According to Covalleski et al. (1998), commercialism within large audit

firms “exerted through a variety of institutional and organizational mechanisms” have powerful disciplining effects on auditors.

Data collection

We have conducted two series of semi-directing interviews at different seniority levels in the Big Four. First, we have interviewed 17 auditors (7 juniors, 7 seniors and 3 managers) working in one of the Big Four in France. The majority of the respondents were men (9) graduates of a business school (14) and working in an office located in the French provinces (10). Each interview lasted between 40 and 50 minutes. We conducted it in French, either in face to face, by telephone or by Internet. We constructed an interview protocol consisting of a list of broad topics with a few direct questions. These topics refer directly to the three dimensions of the structuration theory of Giddens. The first part consists of questions to identify which competencies (in particular which ethical competencies) auditors make use of during the audit process. We invited respondents to describe a situation where s/he had to prove their ethical competency. In the second part, we asked to the auditor to describe tools, procedures, rules developed by audit firms to help them in their practices. In the third part, we focus our attention on competency-based assessment. To this end, auditors related us some situations dealing with ethics in which they had to interact with their supervisor or with their colleagues.

Then, we met four associates or managers in charge of human resources, deontology and corporate social responsibility in order to understand the process and the rules within the audit firm and to determine which competencies were required and how ethical competences were taken into account or not by the organization. Schedule 1 describes the details of the composition of the sample.

Grade	Experience	Functions
Junior auditor (7)	Less than 2 years	Reporting to the Senior Manager, the incumbent is responsible for: <ul style="list-style-type: none"> - Collecting information for readers and reviewing engagements while complying with established deadlines and budgets - Assisting in preparing deliverables and tax returns for companies and individuals (financial statements and adjusting entries) and submitting these for review - Verifying book-keeping for certain clients
Senior auditor (7)	3 to 5 years	Reporting to Managers/Partners, the incumbent is responsible for leading audit assignments from planning through to completion for a wide range of clients including large corporate clients
Manager (Assistant manager, Manager, Senior manager) (4)	More than 5 years	Reporting to the Head of Audit, managerial responsibilities include: <ul style="list-style-type: none"> - Managing the entire audit process from planning, executing and reporting and ensuring that all timeframes are adhered to by the team. - Leading, managing and motivating a team of 4 internal auditors of varying levels of experience. - Deputising for the Head of Audit in a number of areas including attending risk and/or control related.
Associate (3)		<ul style="list-style-type: none"> - Human Resources Management - Deontology

Table 1 Composition of the sample

The content of each interview (on average 8 pages) has been tape-recorded as soon as possible while the conversation was still fresh in the mind of the researcher. In transcribing the interview, an attempt was made to keep to the style of speaking, thus showing all the imprecision, ambiguities and inconsistencies, and also to avoid imposing any interpretation of the text at this stage.

We completed data collection by secondary data that allowed us to apprehend the ethical values of these cabinets as well as the rules, procedure and tools related to ethics. These data comprising internal and external documents, such as websites, transparency reports, tools related to human resources management and more specifically supports for assessment. In the

Big Four each mission results in an evaluation of the team members who took part in the audit. This evaluation is made by the supervisor and by the auditor him/herself. The aim of this HR tool is to score and evaluate the level of each competency demonstrated by the auditor, to identify any lack of competencies or possible behavior problems. Its aim is also to facilitate human resources decisions regarding question as training, career development and appraisal. We had access to these tools enabling us to identify criteria related to ethics or similar concepts (deontology, morals, integrity etc.) and to establish the relative importance of each.

Data analysis

We analyse primary data and secondary data by a content analysis, based on the methods and the formats of data presentation of data recommended by Miles and Huberman (1991). This method consists of three phases: the condensation of the data, presentation of the data and development of the results. We first read the interview transcripts to get an overall impression and bridged it with the secondary data. We then scanned the transcripts to code and categorise the data to get a general pattern of the respondents' perceptions on various issues. We then compiled a set of text units for each construct by distinguishing and codifying the text units from each transcript.

4. Results

The results found show strong similarities in ethical skills management amongst the Big Four. These firms have similar organizations, the values upheld are almost identical and analysis of interviews done with professional auditors and human resource managers did not allow us to distinguish any real differences in their definition of required competencies or in their day-to-day management. This homogeneity justifies the fact that our analysis is global and applies to all the Big Four.

4.1. Ethical skills of auditors defined as the strict application of rules and procedures

If the auditors interviewed almost unanimously emphasize the importance of ethical skills in carrying out their mission, they only mention these skills when specifically questioned on the subject. Auditors will spontaneously mention first of all: technical skills (in accounting, finance, auditing methodology, law...); organizational skills (activity planning and agility); adaptability to different environments; relational skills (quality of communication with clients and colleagues); and leadership. These skills are always mentioned first, as the essential components of an auditor's activity.

Beyond this first observation, ethical skills are defined by auditors as the capacity to rigorously apply rules and procedures. Here, for example, is how a junior auditor describes his profession: *“Working to professional norms, it's a strictly controlled job. The profession defines the auditors' ethics – we don't make anything up. We just have to apply the rules that have been created and defined by the firm and the regulatory authorities.”* A manager in charge of recruitment explains: *“There is very little room for invention or imagination. Ethics come down to a question of integrity. The rules set by the firm must be applied.”*

There are numerous rules. It is first of all a matter of keeping a professional distance from the client, which binds auditors for example, to abstain from holding shares with the firm's clients, accepting gifts or having personal connections with clients. The Big Four have set up several control systems with a view to verifying that auditors apply these rules. All auditors must periodically swear on their honor that they do not hold any shares with clients of the firm. If such were the case, they would have to commit to giving them up within a short timeframe or face disciplinary action which could go as far as being dismissed. Professional confidentiality is also a predominant aspect of auditors' ethical skills. Auditors must not divulge or use information accessed during a mission for personal gain. What comes into

play here is both the auditor's capacity to comprehend the field of application for these rules and his/her will to apply them in mobilizing the technical and human resources of the firm.

"Ethics are primarily personal skills; the product of one's history," explains one of the auditors interviewed. Character traits such as integrity, perseverance, humility and the ability to be objective are mentioned by auditors as being necessary to conduct a quality audit. As some auditors mention, it is always possible to lie or pretend. What distinguishes auditors, therefore, are their values. One auditor talks of the following case: *"For example, you find an error and it's a pain, because it's going to waste your time. It's your sense of ethics that makes you sort out the error anyway. And on every level you are confronted with this type of problem."* *"For me, ethics means having a professional conscience. You have to act like a professional. You are there to represent your company. So your behavior could tarnish your employer's image. It's not only your reputation at stake, but the profession you represent."* (- a senior auditor). The perceived image auditors have of their employer and the respect they have for him/her come into play as a factor capable of reinforcing auditors' ethical behavior.

Lastly, in order to apply these rules, auditors have access to several resources. The use of these resources is one element of ethical skill. A senior auditor explains: *"If I have any doubts, I can access the code of conduct. It's like a guide."* Or: *"When we encounter a problem of an ethical nature - a question - we send an e-mail to Risk Management. And they give us the firm's position - what we should do. They remind us of the procedures to apply."* (- a junior auditor.) What is more, an auditor is rarely alone on a mission. A mission is generally carried out by a team which sees itself as complementary. *"Auditors rarely make decisions on their own. They discuss them with their colleagues and oversight. The fact that we do not face the client alone is actually very reassuring."* (- a senior auditor.) This point was raised in nearly all the interviews.

We will now proceed to analyze what the different elements of auditing activity are in a Big Four firm, and what modalities have been introduced since 2003 in order to strengthen the ethical behavior of their employees.

4.2. Rules and resources for ethics management and responsible leadership

The rules surrounding the professional conduct of auditors are of both external origin (applicable to all auditors, whether working in the Big Four or not) and internal origin (applicable to Big Four auditors only).

Auditing is a highly controlled activity. In France, auditors must follow a professional Deontology Code which outlines the conditions in which the mission is to be conducted, defining in particular the auditor's obligations in terms of integrity, impartiality, competence, independence, confidentiality and application of the rules of the profession. The Professional Deontology Code (*Code de déontologie professionnelle*), published on November 16, 2005, was modified in 2008 and 2010. Auditors must also apply the Standards of Professional Conduct (*Normes de conduite professionnelle*), which govern ethics and professional behavior. These standards, draughted by the National Auditors' Association (*Compagnie National des Commissaires aux Comptes – CNCC*), are submitted to the High Council of Auditors (*Haut Conseil du Commissariat aux Comptes – H3C*), then sent to the Minister of Justice for approval. The Standards of Professional Conduct are legally binding and enforceable against third parties. The application of these rules is controlled by the audit regulatory authorities - the CNCC and the H3C - who have the authority to discipline auditors.

The financial scandals of recent years have led the Big Four to develop numerous resources with the aim of strengthening and encouraging ethical behavior in their employees. The modalities put in place by the Big Four correspond to three dimensions defined by Giddens: signification, legitimation and domination.

Signification structure

All the firms have defined values to inspire and guide the daily activity of their employees. These values are communicated in many different ways (websites, signs, etc.)

PWC	Deloitte	Ernst and Young	KPMG
Excellence (Agility, Learning, Innovation) Teamwork (Respect for others and sharing of knowledge and experience) Leadership (Courage, Vision, Integrity) Corporate social responsibility	Integrity Outstanding value for our clients and markets Mutual commitment Cultural diversity and strength	Integrity Mutual respect Teamwork Courage to lead Building relationships based on doing the right thing	Integrity Leading by example Teamwork Respect Insight Honesty Commitment

The associate in charge of deontology and CSR in one of the Big Four explains: “*CSR is one element of ethics.*” In creating a foundation which finances relief and development projects, this firm intends not only to send a message to its employees showing the importance of ethical behavior outside of strictly professional activity, but it also intends to create a climate favorable to encouraging the integration of values promoted by the firm: “*Ethics are a sort of stepping stone. We need to get beyond texts and organizations and move towards practices, because practices will necessarily flow on to the daily behavior of employees. Through working in an environment that cares about social well-being, we become better people.*” So the ethical skills targeted here go far beyond merely applying the rules. The firm seeks to provide auditors with frames of reference and stores of knowledge which will encourage ethical behavior in their professional activity. So then, the Big Four want to be sure that the firm’s values are meaningful for their employees and that they are

familiar with the procedures defined by the firm for ensuring that deontological rules are applied.

Training offered by the firms plays a predominant role in the development of signification structures common to employees. One firm therefore asks all its employees to follow training programs on ethics and deontology as well as all the modules linked to the position or profession. Another firm assembles its new recruits for a three-day conference every year. This meeting provides an opportunity to discover *Simulethic*, a corporate game based on situations auditors may find themselves in. Each Big Four firm has also made available on its intranet all the documents and procedures to apply. Employees are invited to consult them regularly and especially in the case of an ethical dilemma. E-mails are automatically sent to employees to notify them of any modification to these resources. Moreover, in order to monitor the evolution of employees' perception of ethical management in the firm, the Big Four conduct regular satisfaction surveys, the analysis of which allows associates to be aware of employees' expectations, especially where ethics are concerned.

To a lesser degree, during recruitment and more specifically in an interview with the manager, correlation of the candidate's values to those of the firm is checked. *"The interview with the manager is a way of ensuring that the candidate shares the firm's values (excellence, leadership and teamwork)... It's not an interview with the goal of evaluating ethical sensitivity but rather the compatibility of the candidate's values with those of the firm."* (- an HR manager). The candidates who show inadequate compatibility with the firm's values will not be taken on by the firm.

Legitimation Structure

Each of the Big Four has had, since 2003, codes of conduct and charters which specify the rules expressed in the Deontology Code and the Standards of Professional Conduct in terms of practical rules for behavior. These codes and charters define the rights and responsibilities

of each category of auditor: junior, senior, manager and associate. Disciplinary action may be taken against employees who do not apply the rules laid down in these documents. The Global Code of Conduct of one of the Big Four points out that the employees are expected to behave in accordance with the principles contained in the Code in their day-to-day business activities. Another firm attaches the Code of Conduct to its employment contracts in order to symbolically emphasize employees' commitment to applying the Code.

Domination Structure

Many resources have been put in place by the Big Four to encourage ethics management and the development of employees' ethical skills. First, the chain of command defines the appropriate consultants in the event of an ethical dilemma. All auditing firms also have a 'whistle-blowing' procedure which allows employees who encounter a professional or personal problem to inform a team made up of a human resource manager, a deontologist and a risk management partner. This group leads an inquiry to verify the veracity of the reported allegations and can, if need be, discipline any behavior contrary to the firm's rules. Furthermore, to ensure the application of the Code of Conduct and the firm's charter, one of the Big Four has developed a global network involving around 80 people. This network defines the objectives for implementing a code of conduct and a charter and reminds the different managers of the requirements laid out in the Code. A deontology and social responsibility department set up alongside the risk management department allows firms to monitor the application of rules in the firm and to adjust these rules according to the evolution of the legal and economic environment. Lastly, one firm presents an award (the Chairman's Values Award) to its employees who have best modeled the firm's values throughout the year.

4.3 Evaluating auditors: one aspect of developing responsible leadership

The evaluation process in the Big Four is strictly formalized. After every mission, junior and senior auditors do a self-evaluation and are evaluated by their superiors using the firm's

required skills evaluation grid. An initial analysis of these grids shows the lack of emphasis on ethical skills in the list of required skills for junior and senior auditors. The skills required are essentially technical knowledge (familiarity with accountancy and legal rules...), methodological skills (understanding of risk analysis) and behavioral skills (enthusiasm, persuasiveness, leadership...).

Although ethical skill is not evaluated as such, some items do, however, make reference to it. For example, in one firm, the evaluation is based on “the duty to maintain professional distance and confidentiality” and on “upholding the firm’s values”. In another firm, three out of eleven criteria for evaluation make direct reference to the firm’s official values (respect for others, teamwork and upholding the firm’s reputation). However, the way auditors and human resource managers describe evaluation practices confirms the lesser importance place allotted to ethical skill in an auditor’s career path. Of course, the evaluation can be an opportunity to detect any unethical behavior. For example, this senior auditor shared with us the case of an error noticed in a junior auditor’s work: *“If you notice an error, either it wasn’t deliberate and you explain that he needs to improve, because that’s no good. If he did it knowingly, you set him straight because in that case his ethics are at fault. That is why you do evaluations.”* But conversely, proving one’s ethical prowess will not necessarily lead to career advancement. One manager emphasizes that *“the secret to a successful career lies in getting rid of awkward cases by passing them on to other colleagues so as not to put the firm in an awkward position”*.

The Big Four have introduced a number of changes in their organization in order to encourage ethical behavior in their employees. A number of resources have been made available to them. However, according to structuration theory, introducing ethical artifacts does not induce effective behavioral change if the standards of conduct and values have not been assimilated by the actors. According to Dillard and Yuthas (2002), “For this to occur,

auditors must reconstruct the legitimation structures and act within the structural components or be coerced through the imposition of sanctions”. However, legitimation structures do not yet totally reflect signification structures. Although the firms have created a number of tools, human resource managers have not yet integrated the importance of ethical skills, especially in employee evaluations. However, evaluation processes lie at the heart of human resource management (Catano et al., 2007) because the majority of decisions related to an auditor’s career are made according to skills evaluations. Reinforcing the integration of ethical skill into auditor evaluations could contribute to a better assimilation of conduct standards. The firms have chosen management by example, based on the idea that the responsible and ethical behavior of some, notably the managers, will inspire and motivate the other employees. For example, ‘Project Ulysses’, developed by PWC fulfills this goal.

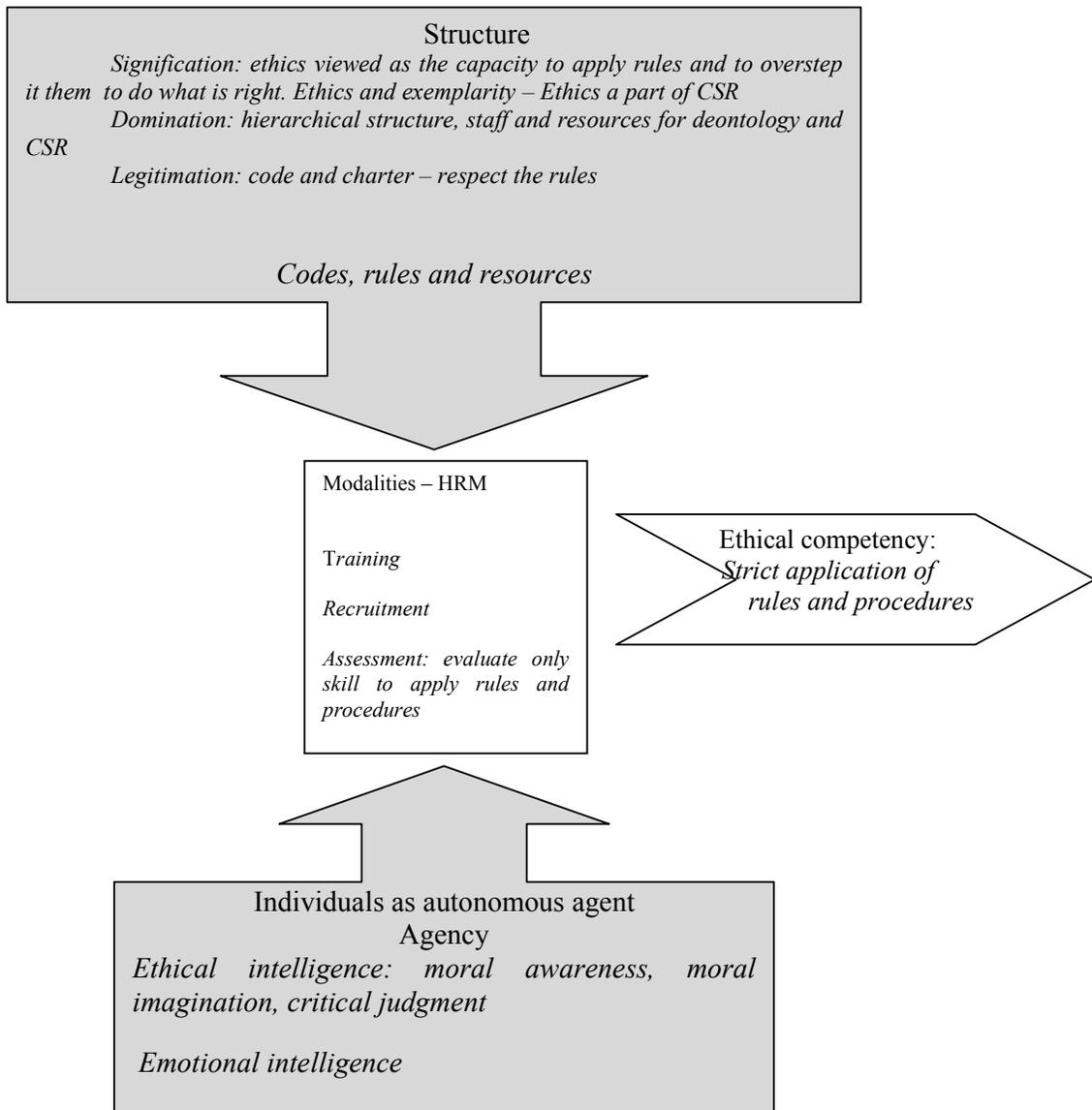


Figure 3: Management of ethical skills in Big Four

Discussion and conclusion

Our study reveals that ethical skills are claimed to be fundamental by the Big Four and necessary to improve the audit quality. Many processes and tools have been introduced since Enron and the ensuing SOX Act to encourage ethical behavior in auditors. The efforts of the Big Four leaders are focused on the improvement of the ethical climate within the firm. The associates in charge of CSR and deontology are convinced that they can contribute to creating

an ethical climate not only by setting clear standards and holding all employees accountable for following these standards, but also by involving themselves on behalf of of world benefit. Leading-by-example is favored as a way of improving ethical skills of auditors and, as a consequence, audit quality.

However, our findings reveal that the system of skills evaluation in the Big Four still accords little space to ethical skills when the career evolution of auditors is considered. One of the arguments developed by Big Four managers and associates to explain this phenomenon is based upon the difficulty in reconciling labor law in France and deontology. Indeed, French labor law control recruitment and the system of skills evaluation which must be based upon objective criteria. For instance, all the questions and subjects raised during a recruitment interview must have a direct link with the nature of the job. Questions related to personal values or moral reasoning risk being sanctioned by the judge. Nevertheless these issues and the application of French labor law may not be incompatible if audit firms achieve to develop objective criteria to define ethical skills.

The results of our study would tend to confirm these of previous research. According Dillard and Yuthas (2002), “the implications for a stakeholder oriented process relate to the recognition that agents are situated within structures that both constrain and enable changes. For auditors to redeploy resources in order to consider stakeholders groups, the structure and/or their stocks of knowledge must first change. (...) The change is the product of signification and legitimation structures.” This type of structures has recently been implemented in the Big Four. Moreover, with regard to Giddens’ structuration theory, individuals play an active role in deploying the resources as well as the interpretative and normative rules available to them. In so doing, they tend either to reproduce or to modify the structural context within which they are embedded. The relative insignificance of criteria

related to responsible leadership in the system of skills evaluation reveals a dysfunctionment in the modalities, which holds back the emergence of responsible leaders.

Our findings, nevertheless, should be interpreted with two caveats in mind. First, the relatively small number of interviews may limit the reliability of our results. Future research should be carried out on a larger sample size to validate these findings. Second, this study is based upon the data collected from the Big Four in France. Futures studies could analyse potential differences between individual members of the Big Four as well as differences in various countries and in other audit firms. A comparison between HR practices in the Big Four and those of other audit firms could help us to better understand those aspects of responsible leadership specific to the large audit firms.

The emergence of responsible leaders aware of their obligations towards all stakeholders will need time and greater effort, not only on the part of the Big Four themselves to adapt their processes of skills evaluation, but also from Business schools and Universities to heighten students' awareness of ethics and corporate social responsibility. Too many auditors consider that their role consists only of protecting their clients' interest and not that of others stakeholders. This way of representing the mission of auditors acts as a brake for the development of responsible leadership in audit firms.

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