

# An Application Of The Conceptual Model Of Service Quality To Independent Auditing Services

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## ABSTRACT

*Auditing's expectations gap has been documented over the last 35 years beginning with Liggio (1974) who initially coined and defined the term. Porter's (1991) and Australian Education Research's (2009) models explored this gap. However, these models don't recognize the auditors' three customer groups: auditees, the public, and regulatory agencies. Additionally, these models don't consider communication's role between auditors and their customer groups. The following discussion applies the service quality model (SERVQUAL) developed by Parasuraman, Zeithaml and Berry (1988 and 1991) to the audit expectation gap and makes recommendations for researching the components, causes, effects of and solutions to the auditing expectations. This model identifies expectation gaps between the service provider (the auditor) and its customers including the auditee, the financial statement user, and the regulatory agencies. Nyeck, Morales, Ladhari, and Pons (2002, p. 102) concluded in a review article of SERVQUAL research". . .the SERVQUAL model remains the most complete attempt to conceptualize and measure service quality."*

**Keywords:** Audit Expectation Gap, Service Quality Model

## INTRODUCTION

The AICPA defines the auditing expectation gap as the difference between what the public and the financial statement users believe the responsibilities of auditors to be and what the auditor believe their responsibilities to be. This gap has been evident for almost three quarters of a century<sup>1</sup> and the existence of the gap has been documented over the last 35 years in both the U.S. and international accounting literature and has been the cause of extensive litigation (e.g., Liggio, 1974; Libby, 1979; Russell, 1986; Nair and Rittenberg, 1987; Holt and Moizer, 1990; Porter, 1991; Lowe and Pany, 1993; Porter, 1993; Epstein and Geiger, 1994; Turner, 1995; McEnroe and Martens, 2001; Specht and Sandlin 2004; Saleki and Rostami, 2009). This continuing research suggests that, although some inroads have been made in narrowing the American expectation gap through the auditing expectation gap standards of the late 1980s, the gap still does exist in the following areas:

1. The nature of the actual auditing process
2. The level of assurance provided by auditors with respect to financial statements' freedom from material errors and irregularities.

Most prior research has speculated on the cause of the gap and some have explored solutions, including the international accounting firms. Porter (1993) and the Australian Education Research's (ABREMA) (2004, p. 4) have attempted to model the gap. Porter modeled the expectations gap as consisting of two components, which she

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<sup>1</sup> McEnroe and Martens (2001) suggest the expectation gap may have first become noticeable during the hearings conducted to investigate the 1937 McKesson & Robbins fraud case.

termed the *reasonableness gap* and the *performance gap*. The reasonableness gap is the "...gap between what the public expects auditors to achieve and what they [auditors] can reasonably be expected to accomplish." The performance gap is the "...gap between what the public can reasonably expect auditors to accomplish and what they are perceived to achieve." ABREMA's model consists of Porter's components, deficient performance and unreasonable expectations, and adds a third component, deficient standards.

Unfortunately, the models of Porter and ABREMA do not take into account that the auditor is serving more than one customer or client. Additionally, these models do not address the issue of communication between the audit firm and its clients although communicating with clients has been shown to be important (Catanach and Golen, 1996; Collins, Gately and Munter, 1986; Golen, Catanach and Moeckel, 1997; Ellis and Mayer 1994; and Shannon and Stevens, 1989). Inherent in the conceptual model of service quality (Parasuraman, Zeithaml, and Berry, 1985), as shown in Figure 1, is the idea that a service is targeted to a particular customer or customer group. However, what if the *same* service is used by three different customer groups? Auditing services are an example of this type of multi-service. The audit service serves the firms being audited, the external users of the financial statements generated by the auditing service, and regulatory agencies such as the IRS and state and local governments – with an essentially identical service offering.

These three customer groups may have different expectations about the service, leading to different service quality judgments for the same service. An obvious solution is to customize the service, i.e., to produce different services for the three customer groups. However, for accounting auditing services, producing customized auditing services is not an option because of Securities and Exchange Commission regulations.

What problems and/or opportunities does this situation present? Do expectations of these three customer groups, in fact, differ? If differing expectations exist, what are the implications of these differences and how can they be managed? Do these three customer groups differ in their concern for outcome versus process service quality dimensions? If so, how can these differing concerns be managed? What part does or could external communications (between the auditors and auditees and/or between auditors and financial statement users and/or between auditors and regulatory agencies) play in managing service quality perceptions for auditing services?

In order to explore these questions, this paper proposes an application and extension of the conceptual model of service quality (Parasuraman, Zeithaml, and Berry, 1985) for the analysis of accounting auditing services.

## **CONCEPTUAL MODEL OF SERVICE QUALITY**

A substantial amount of service quality research has focused on how service customers form judgments about service quality (Parasuraman, Zeithaml, and Berry, 1985; Parasuraman, Zeithaml, and Berry, 1988; Zeithaml, Berry, and Parasuraman, 1988; Bitner, Booms, and Tetreault, 1990; Schlesinger and Heskett, 1991; Parasuraman, Berry, and Zeithaml, 1991; Cronin and Taylor, 1992; Mohr and Bitner, 1995; Loveman, 1998). The conceptual model of service quality proposed by Parasuraman, Zeithaml, and Berry (1985) suggests that service customers base their quality judgments on the gap between customers' expectations and their perceptions of the service they receive. According to this model, this gap between expectations and perceptions, termed the Customer Gap by Zeithaml and Bitner, (1996), is the result of four gaps (Provider Gaps) in the service providers' intra-organizational performance.

Provider Gap 1 occurs when a service organization does not understand what customers expect from the actual service. Provider Gap 2 results from a service organization's inability to translate customer expectations into corresponding service design and service specifications or standards. Provider Gap 3 ensues when the service delivered by the service organization does not meet the specified design and standards. Provider Gap 4 arises when the service delivered by the service organization does not match the organization's implicit or explicit promises regarding the service. According to Parasuraman, Zeithaml, and Berry (1985), narrowing provider gaps 1-4 will result in a reduced customer gap, i.e., more nearly delivering a service product to customers' expectations.

Parasuraman, Zeithaml, and Berry (1991, 1994) further examined the expectation component of the customer gap. Their analysis reveals two types of expectations used by customers in assessing service quality: *desired expectations* and *adequate expectations*. Desired expectations are "...the level of service the customer

hopes to receive...the ‘wished for’ level of performance.” Adequate expectations, on the other hand, are “...the level of service the customer will accept” (Zeithaml and Bitner, 1996, pp. 77-78). Adequate expectations are formed based on the recognition by customers that their desired or ideal service may not be possible given, for example, economic or logistical constraints. Between these two levels of expectations lies the *zone of tolerance*. If customers’ perception of the service delivered to them is below their adequate level of expectations, they form a negative quality judgment of the service. If customers’ perception of the service delivered to them is above the desired level of expectations, they form an exceptionally positive quality judgment of the service. If customers’ perceptions of service delivered to them are within their zone of tolerance, they perceive an adequate, but not exceptional, level of service quality.

## **ACCOUNTING AUDIT SERVICES**

An accounting audit is a professional service that presents a rather unusual situation from a service marketing perspective. Periodic audits of businesses are conducted by an accounting firm’s auditors and essentially serve multiple customer groups. The first customer group is the business whose financial statements are being audited. The second customer group is external financial statement users. These include, for example, potential investors in the auditee’s business or financial institutions considering the advisability of extending loans to the auditee’s business. The third customer group served by the accounting firm’s services is any of a number of regulatory agencies. Thus, the professional service of accounting auditing may serve as many at least three distinct customer groups with an identical service product and perhaps more, i.e., the PCAOB. The auditors, although hired by the firm being audited, also must serve the role of public advocate to external financial statement users through their opinions of the financial soundness of the audited firm and as a watchdog of regulatory statutes also.

## **SERVICE QUALITY MODEL FOR ACCOUNTING AUDITING SERVICES**

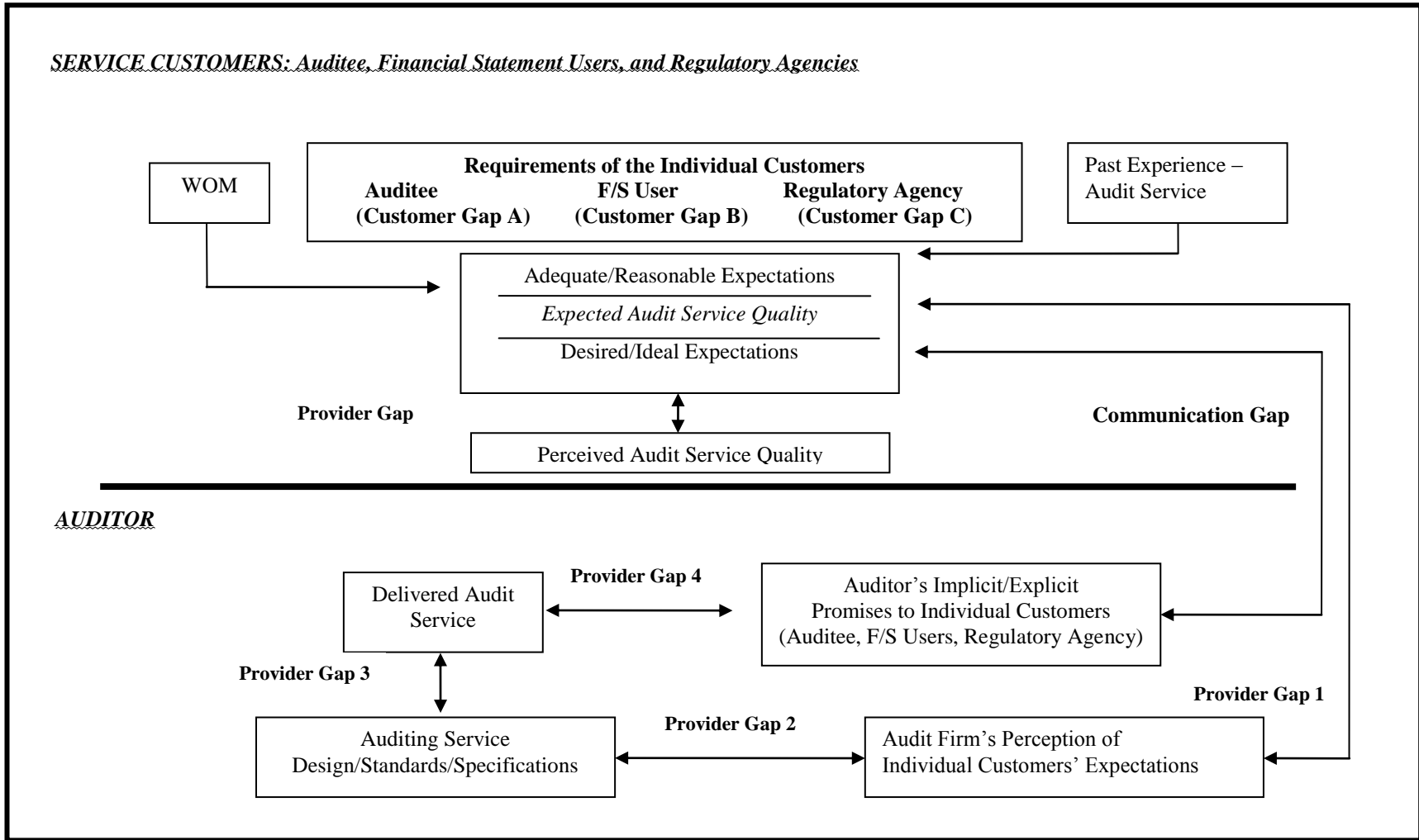
While Porter’s and ABREMA’s analyses of the auditing expectations gap provides some insight into the issue, we maintain that using the framework of Parasuraman, Zeithaml, and Berry’s (1985, 1991, 1994) conceptual model of service quality will provide significant additional insights. Accounting auditing activities are, without question, service activities. The conceptual model of service quality implies that closing intra-organizational Provider Gaps 1-4 will result in smaller customer gaps, i.e., perceived higher quality services.

One of the issues with the prior models of the auditing expectation gap is that neither model recognizes that auditors serve, in fact, these multiple customer groups. Therefore, they only explore the service gaps between the auditor and the financial statement users. These same gaps exist between the auditor and the auditee and the regulatory agencies but are not acknowledged.

Additionally, they both overlook the role of communications between auditors and their three customer groups. According to the conceptual model of service quality, communications, in the form of both implicit and explicit promises between both auditors and all the customer groups individually are instrumental in the formation of expectations for auditing services. Communications, again, in the form of both implicit and explicit promises from the auditor, determine the size of Provider Gap 4. Extending and applying the conceptual model of service quality to an auditing service context will address both the communication issue and the multi-customer issue, this providing significant insights into how to better manage the delivery of auditing services.

Figure 1 presents applications and extensions of the conceptual model of service quality as it relates to auditing services. In the figure, Gap 1 represents the difference between what auditors *perceive* the customer expects and what the customer *actually* expects of accounting auditing services. In the conceptual model of service quality, this gap is referred to as the *research gap* and results when a service firm does not know what customers expect. Methods to address the research gap include the use of marketing research to understand customer expectations and the development of relationship marketing programs, i.e., strengthening relationship with existing customers (Zeithaml and Bitner, 1996).

Figure 1: The Audit Expectation Gap Service Quality Model  
 Adapted from Parasuraman, Zeithaml, and Berry (1985, 1991, 1994)



Gap 2 is the difference between the auditor's understanding of customers' expectations and the design of the auditing service. This gap is referred to as the *standards gap* and results when a service firm does not properly translate customer expectations into service designs and standards. Methods for addressing this gap include a commitment on the part of management to design and maintain service standards and employ evaluation systems that adequately reflect service standards (Zeithaml and Bitner, 1996). The auditing profession is aware of this gap and continuously attempts to narrow it through standardization of the audit service.

Gap 3 is the difference between how the auditing service is designed and how the service is actually delivered. This gap is referred to as the *delivery gap* and occurs when a service firm fails to deliver service according to existing service standards. Among the methods for addressing this gap are the synchronization of demand and supply for the service. Services, for the most part, unlike tangible products, cannot be inventoried, thus increasing the importance of balancing demand and supply (Zeithaml and Bitner, 1996).

Gap 4 is the difference between the auditing service delivered to the customer groups and the implicit and explicit service promises made by the auditor to the customer groups. In the marketing literature, this gap is known as the *communications gap* and is caused when promises from the service provider do not match service performance. Strategies for reducing this gap include establishing adequate horizontal communications within the service firm so that accurate information about the service is communicated to customers (Zeithaml and Bitner, 1996). Service firms' implicit and explicit communications with customers play a particularly important role in service delivery because they affect the formation of customer expectations of a service. As illustrated in the figures, these expectations are instrumental in the formation of quality judgments that customers make of a service.

Service customers compare what they receive in a service against what they expected to receive and form their quality judgments of that service based on the gap between expectations and perceptions. The communications gap has been addressed by the accounting profession, which has attempted to provide guidance and expanded explanations of the responsibilities of auditors, with regard to the audit report (the audit report being the primary communication with all audit service customers). However, research cited earlier suggests misunderstandings concerning the audit process and the level of assurance are still an issue.

Customer Gap denotes the difference between what the service customer expects from the auditing services and what this customer perceives regarding the auditing services. Notice that the configuration of the zone of tolerance from the conceptual model of service quality (formed by the difference between desired and adequate expectations) and proposed in our model incorporates the idea of Porter's *reasonableness gap*. Furthermore, the Customer Gap in service quality model are replicas of Porter's *performance gap*.

## CONCLUSION

Parasuraman et. al's. (1985) model is the most widely used model for the analysis of service quality. Of course, it is not without its weaknesses. Nyeck, Morales, Ladhari, and Pons (2002), analyzed over forty research articles published since the service model's introduction. These authors concluded that the major difficulty with the use of the model was the researchers' failure to validate the instrument used. They state

*The popularity of SERVQUAL [the service quality model] with researcher can be explained mainly by its ease of use and by its adaptability to diverse service sectors. Even if certain researcher have only retained the concept of gap analysis as operationalization of perceived service quality, it appears that the SERVQUAL model remains the most complete attempt to conceptualize and measure service quality. (p. 102)*

Accounting auditing services, which serve both auditees, financial statement users and regulatory agencies, present a unique situation in services marketing. Because of Securities and Exchange Commission regulations, the auditing services provided to the three customer groups cannot be customized. This paper has proposed an application and extension of the conceptual model of service quality (Parasuraman, Zeithaml, and Berry, 1985) for the analysis of auditing services. Research using this model should investigate the proposed relationships between the intraorganizational gaps and customers' perceptions of service quality for auditing services in an effort to discover how to better manage auditees', financial statement users' and regulatory agencies' service quality perceptions.

## AUTHOR INFORMATION

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**NOTES**