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Practice variation in Big-4 transparency reports

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Practice variation in Big-4 transparency reports

Big-4
transparency
reports

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Abstract

Purpose – The purpose of this paper is to examine the transparency reports published by the Big-4 public accounting firms in the UK, Germany and Denmark to understand the determinants of their content within the networks of big accounting firms.

Design/methodology/approach – The study draws on a qualitative research approach, in which the content of transparency reports is analyzed and semi-structured interviews are conducted with key people from the Big-4 firms who are responsible for developing the transparency reports.

Findings – The findings show that the content of transparency reports is inconsistent and the transparency reporting practice is not uniform within the Big-4 networks. Differences were found in the way in which the transparency reporting practices are coordinated globally by the respective central governing bodies of the Big-4. The content of the transparency reports is particularly influenced by the national institutional environment in which the Big-4 member firms operate, thus leading them to introduce practice variation and resulting in cross-national differences.

Practical implications – The study results have important implications for standard setters, regulators and practitioners, as the research provides insights into the variation taking place within the common regulatory frame.

Originality/value – This is the first study to analyze how transparency reporting practices are developed within the networks of Big-4 firms, thereby influencing the content of transparency reports.

Keywords Legitimacy, Institutional logics, Accounting firms, Cross-country difference, Practice variation, Transparency reports

Paper type Research paper

1. Introduction

Following the high-profile corporate scandals at the beginning of this century, and the recent financial crisis, audit quality has become one of the top-priority issues for regulators, standard setters, researchers and practitioners (Deumes *et al.*, 2012). The discussion has included the assertion that increased transparency[1], with respect to governance and the professional practices of audit firms, may enable stakeholders and market participants to differentiate between firms, which, in turn, may provide accounting firms with incentives to increase their audit quality (International Organization of Securities Commissions, 2009). Providing greater transparency and disclosures will also enable interested parties to be better informed about how the firms are managed (Patel and Dallas, 2002). In line with this reasoning, the EU revised its Eighth Directive (European Parliament and Council of the European Union, 2006), requiring all public accounting firms in the EU that audit Public interest entities PIEs[2] to publish transparency reports disclosing information about the firms' organization, governance and quality control with effect from 2008 (Pott *et al.*, 2008). However, in spite of the increased transparency disclosures, and contrary to the EU's intentions, public interest in these reports appears to be weak (CCAB, 2011). It is the overall purpose of this paper to contribute to an understanding of this paradox by analyzing the content of transparency reports and the process by which these are prepared. The regulations concerning transparency reports are found in the EU Eighth Directive's Article 40 (European Parliament and Council of the European Union, 2006),



requiring all statutory auditors and public accounting firms in the EU that audit PIEs to disclose the following information:

- (1) a description of the legal structure and ownership;
- (2) whether the audit firm belongs to a network, a description of the network, and the legal and structural arrangements in the network;
- (3) a description of the governance structure of the audit firm;
- (4) a description of the internal quality control system of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;
- (5) an indication of when the last quality assurance review took place;
- (6) a list of public interest entities (PIEs) for which the audit firm has carried out statutory audits during the preceding financial year;
- (7) a statement concerning the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;
- (8) a statement on the policy followed by the audit firm concerning the continuing education of statutory auditors;
- (9) financial information showing the importance of the audit firm, such as the total turnover divided into fees from the statutory audit of annual and consolidated accounts, and fees charged for other assurance services, tax advisory services and other non-audit services; and
- (10) information concerning the basis for the partners' remuneration.

As they appear, the directive's requirements are quite broad and leave some discretion to member states in relation to the implementation of the directive into local law. Furthermore, local law may, in turn, allow accounting firms some discretion as to their interpretation in practice. Consequently, there is ample opportunity for various strategies in relation to the level of desired disclosure and the degree of coordination within and between firms and countries. However, knowledge about how the transparency reporting practices are set within the global networks is sparse. Important questions relate to the degree to which the global central governing body of the network or professional bodies coordinate the content of the reports, whether member firms seek legitimacy by imitating the transparency reporting practices of other accounting firms, or whether accounting firms tailor disclosures to the needs of specific stakeholders.

Accordingly, the research aims are: to analyze the contents of Big-4 accounting firms' transparency reports in the UK, Germany and Denmark, and to analyze the determinants of the content of transparency reports in Big-4 accounting firms in the UK, Germany and Denmark. The analysis examines two contradictory forces, which in theory may influence the content of transparency reports. On one hand, big accounting firms would be expected to produce consistent transparency reports cross-nationally because the Big-4 describe themselves as "one firm worldwide," providing a consistently high-quality service (Arnold *et al.*, 2009) and organized in highly integrated networks cross-nationally (Lenz and James, 2007) for their global clients and users. On the other hand, variation in the level of disclosure in transparency reports may be expected because tensions between institutions in the business, legal and cultural environments may lead local accounting firms to adapt the content of transparency reporting.

The remainder of the paper proceeds as follows. Section 2 reviews the existing research concerning transparency reporting and discusses the theoretical perspectives based on institutional theory and practice variation theory. Section 3 describes the qualitative

research design and explains the choice of the three countries to be studied: the UK, Germany and Denmark. In Section 4, the content of the transparency reports of the Big-4 firms in these countries is analyzed, supplemented by explanatory findings from interviews with the partners/directors/CFOs who were involved in formulating these reports. Finally, Section 5 presents the discussion, conclusion and implications for research and practice.

2. Theoretical perspective

The previous literature on transparency reports is very limited as the transparency reporting directive is relatively new. To date, scholars have examined only the perception of practitioners about the effectiveness of transparency reports and the relationship between the extent of variation of disclosures across firms within a country and the number of PIE clients (Pott *et al.*, 2008; Petersen and Zwirner, 2009; Pheijffer, 2010; Pivac and Čular, 2012; Fu *et al.*, 2015). The only notable exception is the study by Deumes *et al.* (2012) that examines whether there are cross-country variations in the disclosure levels and their relation to audit quality. Their study did not find any association between the number of disclosures and the audit quality and suggested that the cross-country (Austria, Germany, the Netherlands, the UK) differences may be driven by national regulatory requirements.

This study further examines the influence of the institutional environment of the Big-4 on the development of transparency reports by drawing on two main theoretical arguments: an argument as to why similar transparency reporting practices may be expected, and an argument as to why variation in transparency reporting may be expected.

The argument for expecting similar transparency reporting practices is based on neo-institutional theory, which has been widely used for studying the adoption and diffusion of organizational practices (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 2001; Tolbert and Zucker, 1983). Organizations conform to the set of beliefs and integrated norms, practices and procedures imposed by the institutional environment (Powell and DiMaggio, 1991) to increase their survival prospects, legitimacy, political power and resources by conforming to societal expectations (Meyer and Rowan, 1977; Scott, 1987). DiMaggio and Powell (1983) theorize three type of isomorphism – coercive, mimetic and normative – that cause organizations to become increasingly similar. Coercive isomorphism relates to cultural expectations to adopt certain structural forms and/or practices, occasionally imposed by formal regulation or powerful authorities. In relation to transparency reporting, coercive pressure derives partly from the way in which big accounting firms are organized and partly from the regulatory environment. Even though Big-4 firms remain independently owned and managed on a national basis (Lenz and James, 2007; Malhotra *et al.*, 2006), the global central governing bodies of the Big-4 firms seek to organize and integrate the member firms by imposing common standards and practices on them to operate as a “seamless web” (Cooper *et al.*, 1998; Rose *et al.*, 1999). The member firms are required to comply with the common standards and practices imposed by the central governing bodies of the network (Zimmermann and Volckmer, 2012) to retain their membership of the network. Thus, the transparency reporting practice is likely to be coordinated by the respective central governing body of the Big-4 firm. These kinds of enforcements imposed by the central governing bodies of the accounting firms can be interpreted as coercive pressure to increase the homogenization in the transparency reporting practice across EU countries. Furthermore, a regulatory source of potential coercive pressure is the European Group of Auditors Oversight Bodies, replaced in 2016 by the Committee of European Auditing Oversight Bodies. This is a platform on which the public oversight bodies of accounting firms from different EU member states can interact and share their best practices to facilitate effective coordination and harmonization between fragmented national systems, thus creating pressure to conform to the common European practice. In addition to coercive

pressure, it may be expected that transparency reports are subject to mimetic isomorphism. Mimetic isomorphism refers to organizations adapting to uncertain or ambiguous expectations by mimicking the forms/structures of other organizations, which are considered to be successful and legitimate in their context. Since the transparency reporting directive is relatively new, member firms are likely to be uncertain about users' expectations. Therefore, member firms may also imitate the practices of other member firms from other countries to deal with uncertainty and ambiguity about the kind of disclosures that need to be published. Audit firms producing transparency reports may also be subject to normative isomorphism. Normative isomorphism exists where organizations adapt to the professional values and practices that are considered to be legitimate by society. Many EU endeavors are largely directed towards the establishment of a single market (Humphrey *et al.*, 2011). To achieve that goal, there has also been increasing reliance by the EU on international professional bodies to bring homogeneity to the standards and practices of accounting firms (Loft *et al.*, 2006). Thus, it may be expected that international bodies like FEE or IFAC play a role in exerting normative pressure by generating convergence in the transparency reporting practices of the accounting firms to maintain their legitimacy. Similarly, at the national level, the local professional bodies may act to harmonize the content of transparency reports to be considered legitimate by society. This legitimacy is of great importance because auditing's professional recognition is based on a social contract with society to work in the public interest in return for privileges like monopoly on statutory audits and self-regulation. Compliance with such a social contract is a precondition for legitimacy (Deegan *et al.*, 2000; Deegan, 2002; Magness, 2006). While an individual audit firm's breaches of the social contract may be expected to lead the firm to manage disclosure to reinforce legitimacy, it is also likely to lead to responses to manage disclosure at the professional level if the public considers the breaches to represent a general practice that is not in accordance with the public interest. In turn, this is likely to lead to increased intensity of coercive pressure from regulators and/or increased normative pressure from professional bodies. Thus, according to the neo-institutional perspective, consistent and homogenized content may be expected in transparency reports within the respective network of large accounting firms.

The argument for expecting variation in transparency reporting practices is based on practice variation theory. This perspective focuses on actors, such as individuals or firms who are embedded in multiple institutional environments (Friedland and Alford, 1991; Lounsbury, 2008). This is the case with the networks of Big-4 firms, which have a complex institutional structure where member firms share not only the institutional environment of their international network and the profession, but also the national institutional environment of the country in which they operate, giving rise to institutional duality (Malhotra *et al.*, 2006). Thus, the Big-4 can be described as pluralistic firms as they function in multiple institutional spheres and experience multiple regulatory regimes (Kraatz and Block, 2008). In these cases, institutional complexity may be experienced differently by the actors and therefore their responses are likely to vary (Greenwood *et al.*, 2011). The characteristics of accounting firms in terms of structure, ownership, governance and identity, can make actors particularly sensitive to a certain logic and less so to others (Greenwood *et al.*, 2011). Thus, an accounting firm's multiple embeddedness exposes actors to divergent pressures that stem from divergent institutional logics[3], which, in turn, enables variation in the actors' cognitive orientation (Kilfoyle and Richardson, 2011; Lounsbury, 2008; Lounsbury and Crumley, 2007; Modell and Wiesel, 2008). This is likely to result in practice variation in transparency reports. In general, practice variation that is perceived to fall within the boundaries of the existing institution is usually allowed to continue as a marginalized practice. This may well be the case when accounting firms make minor variations to manage legitimacy. However, if a practice variation is socially

recognized as an anomaly it will challenge extant institutions and will thus be likely to create resistance from the actors whose logic and interests are being challenged (Lounsbury and Crumley, 2007; Marquis and Lounsbury, 2007; Seo and Creed, 2002). To become broadly accepted, new practice variation therefore requires field level political negotiations about its appropriateness (Lounsbury and Crumley, 2007). The political aspect is further reinforced because changes in the level of transparency are, in themselves, likely to affect power relations between the actors involved (Meijer, 2013). Consequently, in case of material variation in transparency reporting practices, we expect to find negotiations within the auditing profession and between accounting firms and stakeholders about the appropriateness of this variation.

In summary, an accounting firm's development of transparency reports may be subject to pressures making transparency reporting more homogeneous as well as pressures that may make it more heterogeneous. Coercive, normative, and mimetic pressures push transparency reporting practices to become more homogeneous within the accounting firms' networks. Problems relating to auditing's social contract to work in the public interest may be expected to increase the intensity of the coercive pressure from regulators and the normative pressure from professional bodies. Mimetic pressure may relate to the practices of other accounting firms in the domestic market as well as to the practices in the accounting firm's international network, thus pushing transparency reporting to become either more homogeneous at the national level or within the international network of accounting firm. Accordingly, the embeddedness of Big-4 accounting firms in multiple organizational fields may give rise to divergent institutional pressures or conflicting logics. This can further intensify based on the characteristics of the firm, for example, the degree of centralization and control. Divergent pressures are likely to lead the accounting firm to adapt its transparency reporting, thus creating variation in the content of transparency reports. Consequently, the analysis of an accounting firm's transparency reporting practices needs to focus carefully on the context of the particular accounting firm and on its characteristics.

3. Research design and methodology

Due to a lack of sufficient explanation in the earlier literature as to why there may or may not be cross-national variations in transparency reporting practices, a qualitative research approach is deployed to fill this gap. The qualitative approach is adopted due to the nature and context of the study as it is particularly relevant when there is a need to better understand any phenomenon about which prior insights are modest (Ghauri and Grønhaug, 2005, Strauss and Corbin, 1990). The qualitative research approach is more concerned with understanding the reality from an actor's perspectives, how these perspectives are shaped by, and how they shape their physical, cultural and social contexts, and which particular processes are involved in preserving and altering these phenomena (Firestone, 1987; Maxwell, 2012). The greatest benefit of a qualitative study is that it not only describes a specific event but also deepens our understanding of how and why the "same" event is interpreted in a different manner by different stakeholders (Sofaer, 1999). This aspect provides significant value in studies of policy making, implementation and outcomes (Sofaer, 1999). Accordingly, this study also involves the revised Eighth EU Directive; the qualitative approach will enlighten our knowledge of how EU directives are being implemented in the Big-4 public accounting firms operating in the EU.

The UK, Germany and Denmark were selected for this study. This choice of countries was based on considerations regarding the diversity of the legal systems, providers of corporate capital, and protection rights for investors. The UK is characterized as a common law country having stronger laws for the protection of outside investors with a large equity market and dispersed ownership structure (Van Tendeloo and Vanstraelen, 2008), whereas Germany is a code law country and provides higher protection laws to creditors due to the

presence of a large bank and pension fund oriented capital market, among whom the ownership and voting rights are generally concentrated (Frost and Ramin, 1996). Denmark belongs to a different sub-type of civil law system: it is of a more pragmatic Scandinavian type and, due to the presence of family business models, the ownership is highly concentrated and voting rights are vested with the insiders. Denmark has low protection rights for outside investors and is considered to have a more concentrated ownership structure (La Porta *et al.*, 2000). Thus, the selected countries provide a fair representation of the regulatory diversity within the EU and therefore enable an assessment of the degree to which transparency reporting practices are affected by regulatory traditions. The study is based on transparency reports that were available online for the Big-4 audit firms. It is confined to the reports for the year 2012[4] as, by law, audit firms are allowed to remove the reports from their website two years after publication. The structure of the reports follows the prescribed directive requirements listed in the introduction.

This study was carried out in two stages. Content analysis was used in the first stage of the study, where the central idea was to classify many of the words into fewer content categories and to make valid inferences from the text (Weber, 1990) by systematically classifying the process of coding and identifying themes and patterns (Hsieh and Shannon, 2005). The content analysis facilitated comparisons of the transparency reports across three countries. First, the transparency reports were gathered for the year 2012 for all Big-4s in the UK, Germany and Denmark and the reported disclosures for each audit firm were then systematically arranged into nine categories. The coding categories were broadly obtained from the EU Eighth Directive, which lays down the list of disclosures that audit firms must include in their transparency reports. Additional sub-coding categories were identified based on common themes. The disclosures in all 12 transparency reports were then manually read and recorded against the coding categories in order to obtain cross-country comparisons. By performing multiple iterations, the final level of analysis was reached that identified the kinds of differences that exist between the Big-4's transparency reports in the UK, Germany and Denmark. The length of each report systematically varied from country to country (cf. Table I).

The next stage in the study entailed conducting semi-structured interviews with the key people at the top of the firms who were involved in developing the transparency reports of the Big-4s. Most of the informants were national risk management partners, directors and CFOs. The objectives of the interviews were to gain an understanding of the participants' perspectives on how transparency reports are prepared and what considerations they took into account when preparing these reports. A semi-structured approach facilitates an open-ended and flexible nature in the interview design and conduct, providing a richer data set for later analysis (Horton *et al.*, 2004). This approach enables spontaneous discussions and follow-up on questions (Lee, 1999) and allows respondents to freely express their thoughts and ideas. To gain insights into the process of preparing the transparency reports and the key challenges encountered while doing so,

	PWC	Deloitte	KPMG	E&Y
<i>UK</i>				
50 pages		40 pages	46 pages	38 pages
<i>Germany</i>				
34 pages		19 pages	39 pages	31 pages
<i>Denmark</i>				
25 pages		24 pages	28 pages	25 pages

Table I.
Length of
transparency reports

purposeful sampling was applied, only interviewing informants who were responsible for making key decisions on the reports. A total of 14 interviews were conducted, of which 13 were face-to-face interview and one interview was mailed to the lawyer in a legal department. Interviews were conducted with key people in all Big-4 companies in each of the three countries, with the exception of company ZZZ in the UK because the partner was unavailable due to his busy schedule. Interviews were also conducted with members of the oversight bodies[5] from all the three countries. This was undertaken to develop an understanding of how the transparency reports are examined and perceived by these bodies. See details of interviewees in Table II.

All the interviews were conducted in English between November 2013 and July 2016. The average length of each interview was 40 minutes. In order to increase the trustworthiness of the collected data, various measures were taken. First, an interview guide was used to ensure that there was a consistent framework across all countries, and that questions did not vary significantly from one interview to another. Second, before the interview began all interviewees were given an assurance of confidentiality and anonymity to encourage candid responses. Third, the respondents' permission to tape-record the interviews was requested. To establish rapport with the interviewees, an e-mail containing background information about the research, the researcher and the assurance of anonymity and confidentiality was provided and interviewees' questions related to the study were addressed before the interviews were scheduled. All but one of the interviews were tape-recorded and subsequently transcribed. In one case, the respondent did not want to be recorded, here hand-written notes were taken both during and after the interview. All the transcribed/notes of the interviews and other material were systematically examined multiple times manually. The relevant data were divided into clusters and the emergent themes and their relationships were identified through recurring patterns with respect to the theoretical perspectives that were used to address the research questions (Scapens, 2004). The themes that emerged in the study thus served as answers to the research question. To reduce the researcher bias the data was also reviewed by both authors to arrive at a similar interpretation.

4. Findings

This section presents the main findings and discusses them in light of the previously reviewed literature. The aim of the study was to examine the contents of the transparency

Interview	Big-4	Position
A	AAA UK	Director
B	AAA Germany	Partner risk management
C	AAA Denmark	Partner risk management
D	ZZZ Germany	Partner risk management
E	ZZZ Denmark	Partner risk management
F	YYY UK	Partner risk management
G, H	YYY Germany	Directors
I	YYY Denmark	Director
J	XXX UK	Senior manager
K	XXX Germany	Lawyer – legal department
L	XXX Denmark	CFO
M	Regulator – UK	Member of audit inspection oversight body
N, O	Regulator – Germany	Members of audit inspection oversight body
P	Regulator – Denmark	Member of audit inspection oversight body

Table II.
Details of interviewees

reports of big accounting firms and to develop an understanding of what determines the content of the reports within the network of the Big-4s. On the basis of the content analysis, it is concluded that the content of transparency reports is inconsistent within the Big-4 networks, and that transparency reporting practice is not uniform across the network. Differences were found in the way in which transparency reporting practices are coordinated globally by the respective central governing bodies of the Big-4s as well the regulators. Only two of the four large accounting firms were tightly controlled and had global guidelines on transparency reports prescribed by their central governing bodies, the aim of which was to maintain uniformity of disclosures. The other two firms allowed their member firms to develop their transparency reports at a national level. In both the scenarios the member firms tended to become more isomorphic in the national institutional environment of the country from where they operate. One of the prime reasons behind national isomorphism was the use of the transparency reports. All respondents from the Big-4s unanimously agreed that the local oversight body and the competitors are, potentially, the main readers of the transparency reports. As noted by one of the directors on being asked about the usage of the reports:

It goes to the professional oversight board or the regulator and we know that the inspection team reads it very carefully [...] I cannot really think of a situation where we benefitted from it. There has been no feedback on the content of it. I do not think people use it as a differentiator (Director, ZZZ Big-4, UK).

Another German partner at ZZZ substantiated the above view:

Usage of this is very limited. In the beginning we did an analysis and found out that most of the readers are academics or competitors. It was quite disappointing. No one else is interested in it. It's form over substance rather than substance over form [...] clients are not interested (Partner, ZZZ Big-4, Germany).

Similarly, the oversight bodies were not quite sure how widely the reports are being used by the market, but all of them indicated that it has limited usage due to the information contained in the report. An illustrative comment was:

I don't have a sense of how widely read these things are. At the end of the day what you have to remember is that the firms produce an awful lot of reports. If you take their (Big-4's) annual reports, they are not slim documents, they are quite thick and the transparency report is going the same way. They are glossy documents [...]. There is an awful lot of information out there. There is a lot of reporting and people only have a finite time and therefore they focus on the things that they think are most useful to them, they cannot read everything out there (Member of oversight body, UK).

The oversight body in Germany also indicated why the transparency reports might not be too helpful to the market:

So far one source of information about auditors is transparency reports so I don't know if you have done this so far talking to the audit chairs but the answer might be that what is in the transparency report we already know, maybe not each and every aspect, but for doing the evaluation of the audit firm it doesn't really give more additional information (Member of oversight body, Germany).

As the users of the report are primarily the national oversight bodies and competitors, and if the member firms feel any uncertainty about the market expectations with respect to disclosures, they tend to follow what the other member firms are disclosing in the national market and do not refer to the reports of international member firms. All the participants stated the view that they read the reports of their competitors in the national market. On being asked if the member firm follows the reported content in their international network, all participants said that their point of main reference was other national Big-4s

and, due to different style of reporting and regulations, they rarely they refer to the other member firms in their own international network. A representative comment was:

It's really not something that's very much discussed internationally [...]. We don't look at what they do in the UK or Germany anyhow, where should we start and where should we stop, and we really don't feel that there are users in the UK or Germany or we don't compare with them at all in the day-to-day market. We don't really see the relevance (Director, YYY Big-4, Denmark).

This study found significant support for the mimetic pressures prevailing at the local level that member firms use to benchmark their own transparency reports against those of their local competitors. Member firms closely follow the reports issued by their competitors and analyze the level of disclosures in the local market. Member firms mainly observe the style, layout, and structure of the reports and the level of sensitive disclosures made by their competitors. For example, this may include claims or sanctions against the audit firms for delivering a poor audit quality, and details of partners' remuneration. The practice of following the local member firms was confirmed by one of the participant's whose view was representative of all respondents:

I would say that the level of transparency is driven by the local market, no doubt about that. The challenge is to agree on what the level of disclosure should be. Very often we want to disclose more but you end up pulling back because you say: OK, no one else does this then why should we stick our heads further out than everybody else (Director, YYY Big-4, Denmark).

Interviewees from oversight bodies also mentioned the view that mimetic pressures exist at the local level. A representative comment is illustrated below:

I think everyone (Big-4s) is looking at each other and if one company starts to reduce the other one will follow, and vice versa. No one will give more information than their competitors. So, if someone is looking to reduce the information I think it has big influence on other companies (Member of oversight body, Denmark).

It is the expectations of the national institutional environment that play a significant role and exert pressures on the national member firms to adopt similar practices. Thus, it can be inferred that the member firms attempt to gain legitimacy in their national institutional environment by conforming to the expectations of the national market and the result is that they become isomorphic with each other. As can be seen in Table III, it was also the case that although all the firms provide a general overview of the partners' remuneration, it is only in Germany that all firms consistently mention the percentage of average remunerations of fixed salaries paid to the partners/directors. One of the respondents explained the pressure from the competitors that they had to face in the domestic market:

The only area where we keep to the required minimum is the remuneration. We were actually criticized by our competitors in our first report in 2008 or so, and now we say: "OK, the flexible part of remuneration for directors is x% on average of the fixed salary". That's it. So, when we started, this was difficult at first (Partner, ZZZ Big-4, Germany).

The regulators' intention in introducing partners' remuneration in transparency reports might be to address concerns about auditors' independence. The auditors have an economic incentive to sell non-audit services as these are usually considered to be more profitable, thereby creating a threat to their independence (Tepalagul and Lin, 2015). The table shows that almost all firms describe the process, measures and components of partners' remuneration but no firm describes how much weight is given to each criterion. From the transparency reporting perspective, this also raises concerns about the informational value of the disclosures.

One respondent made an interesting comment that firms are maintaining limited transparency with respect to remuneration:

Everybody kind of says that our remuneration is not based on selling other kind of services. But [...] of course if you have sold a lot of those services, because everybody promotes it,

Table III.
Partner remuneration

	UK		Germany		Denmark	
	PWC	Deloitte	KPMG	E&Y	E&Y	KPMG
Remuneration details	Remuneration Process for partners Components	Remuneration Process for partners Performance Measures	Remuneration Process for partners Components	Remuneration Process for partners Performance measures	Remuneration Process for partners Performance measures	Remuneration Process for partners Performance measures
Process for drawing remuneration	Yes	Yes	Yes	Yes	No information	No information
Remuneration paid out	Members' average income	No information	% of profits allocated as base component of the partners' salary	No information	No information	Variable pay-out % is given for board members and partners
			Average profit allocated for performance related components for 2011 & 2012		Average % variable compensation of directors, partners and other employees for senior staff and senior staff	Average variable pay-out % is given for board members and senior staff
Remuneration details	PWC Remuneration Process for partners Performance measures	Deloitte Remuneration Process for partners Performance measures	KPMG Remuneration Process for partners Performance measures	E&Y Remuneration Process for partners Performance measures	Deloitte Not described in detail	PWC Remuneration Process for management board, supervisory board and senior staff
Process for drawing remuneration	No information	No information	No information	No information	No information	No information
Remuneration paid out	No information	No information	No information	No information	Average % variable compensation of directors, partners and other employees for senior staff and senior staff	Variable pay-out % is given for board members and senior staff

everybody is supposed to do it. If you have sold one million of tax advice to your audit client, you get 10% of that. There is no direct link but if you expanded the business of your clients then that you would get a higher score on your balanced scorecard. Of course there is some kind of relation. You cannot say that there is no relation. That is not true. So, it is a very sensitive area to be disclosed in reports (Director, YYY Big-4, Denmark).

Based on the remuneration information provided in the transparency reports, this may not only be difficult for the external users to assess how partners are remunerated but may also pose a challenge for the oversight bodies. This view regarding remuneration was verified during the interview with the German oversight body:

The requirement when it comes to remuneration is a critical thing. In some instances we saw it was a little bit too vague in the TR or we think the wording is quite proper but how they (Big-4s) are doing the process and splitting the money among the partners we cannot really see whether they follow their own procedures. Sometimes the situation comes in where they follow the systems and procedures that are established for the allocation and we see some documentation where one partner is evaluated properly, like the other one, but yet one partner gets double the amount of money [...]. It is a hot topic that we look at because firms do not want to give too much information (Member of oversight body, Germany).

Another critical factor causing practice variation was cross-national differences between domestic oversight bodies. In all the interviews, respondents also highlighted the dominant role played by the national oversight body in shaping the transparency reports of the Big-4 public accounting firms. It has been documented in the literature that the UK is classified as one of the strictest countries in Europe in terms of legislation that ensures a high audit quality regime (Moizer and Turley, 1989). The results of this study support this finding. The British oversight body was found to have a stricter approach than the German and Danish oversight bodies with respect to the reported content in transparency reports. For example, as seen in Tables IV and V, in the UK, all the firms focus on a high level of detail of their global governance structure, legal structure and national line governance structure, in contrast to the German and Danish member firms. This is because the audit firm governance code in the UK requires that in their transparency reports all Big-4 accounting firms to supply information on names and job titles of all members of the firm's governance structures and its management team, how they are elected or appointed their term of appointment, length of service, meeting attendance in the year and relevant biographical details. Other countries do not have such governance codes, so this creates cross-national differences in the reports.

It can be clearly seen from Tables IV and V that the more tightly controlled firms (KPMG and EY) attempt to maintain consistency in their disclosure practice with respect to their governance structure across all three countries; in contrast to the more loosely controlled firms (PWC and Deloitte). The description style of ownership structure seems to be unique, particularly in UK and Germany. The British firms describe the ownership structure in detail whereas firms in Germany provide the share capital owned by German member firms. With the exception of one firm in Denmark, the UK is the only country where all firms provide information about the number of partners, which implies that these kinds of disclosures are allowed to continue as a marginalized practice at the local level since the practice does not challenge the logics and interests of the other firms. The lists of numbers of offices of the firms are also found only in British and German reports.

Similarly, Table VI (Panels A and B) also illustrates the differences in the regulatory requirements of the three countries. In general, the regulators' purpose in requiring the financial information disclosure related to audit and non-audit services is to provide users with information to evaluate whether the proportion of the generated revenues causes them to question independence. The financial information could also be used to understand the focus of the audit firm with respect to the kinds of services provided. Since, it is mandatory to publish the revenues and the operating profits and to have a Public Interest Committee

Table IV.
Global governance
structure

	UK			Germany				
	PWC	Deloitte	KPMG	E&Y	PWC	Deloitte	KPMG	E&Y
Global network revenues disclosed	Yes	Yes	Yes	Yes	No	No	No	No
Global governance structure details	Boards Responsibilities Composition Election criteria Term Number of times they meet	Boards Responsibilities Election criteria Term Number of times they meet Subcommittees responsibilities and member firms' voting rights	Boards Responsibilities Election criteria Term Number of times they meet	Boards Responsibilities Composition Election criteria Term	Boards Responsibilities Election criteria Term	Boards Responsibilities Election criteria Number of times they meet	Boards Responsibilities Composition Election criteria Term	Boards Responsibilities Composition Election criteria Term EY Europe board activities
Independent non executives details	Board Profile Independence policy	Board Responsibilities Election	No information	No information	No information	No information	No information	Boards Responsibilities Composition No information
Description of common processes to help member firms apply standards	Yes	No information	No information	No information	No information	No information	No information	No information
Details on how European cluster is organized and the % of ownership structure	No information	No information	Yes	No information	No information	No information	Yes	No information
How the organization activities are funded	No information	No information	Yes	No information	No information	No information	Yes	No information
Information on indemnity insurance coverage	No information	No information	Yes	No information	No information	No information	Information on professional liability insurance	No information
Web link for global governance	No information	No information	Yes	No information	No information	No information	Yes	No information

(continued)

Global network revenues disclosed	PWC No	Deloitte No	Denmark KPMG No	E&Y No
Global governance structure details	Boards Responsibilities Composition Number of members	Name of CEO & President	Boards Responsibilities Composition Election criteria Term	Boards Responsibilities Composition Election criteria Term
Independent non executives details	No information	No information	No information	Boards Responsibilities Composition Election criteria Term
Description of common processes to help member firms apply standards	No information	No information	No information	No information
Details on how European cluster is organized and the % of ownership structure	Only name of clusters	No information	No information	No information
How the organization activities are funded	No information	Yes	No information	No information
Information on indemnity insurance coverage	No information	No information	Yes	No information
Web link for global governance	No information	No information	Yes	No information

Table IV.

Table V.
Legal structure and
national line
governance structure

	UK		E&Y		PWC		Deloitte		Germany		E&Y	
	PWC	Deloitte	KPMG	E&Y	PWC	Deloitte	KPMG	E&Y	Germany	KPMG	E&Y	E&Y
<i>Ownership structure</i>												
Ownership structure details	Ownership structure described in detail Principal line of business Subsidiary undertakings and their principal activity	Ownership structure described in detail	Ownership structure described in detail	Ownership structure described in detail	History of PWC specified to explain structure Details about share capital for PWC Germany, Europe and other member firms	% break up of share capital owned by Deloitte Germany	Number of average equity partners in KPMG Germany Subsidiary undertakings structure and status and their principal activity KPMG Europe structure and web link provided for KPMG Europe LLP	% break up of share capital owned by EY Germany and other firms	No information	No information	No information	No information
Number of partners in the UK	Yes	Yes	Average number	Yes	No information	No information	No information	No information	Legal status and structure of subsidiaries	Legal status and structure of subsidiaries	List of Location	
Number of offices	Web link provided	Yes	Yes	Yes	Yes	Addresses and contacts	Yes	Addresses and contacts	Yes	Addresses and contacts	Boards	Boards
<i>National Line Governance Structure</i>												
National line governance structure details	Boards Responsibilities Biographic details and pictures Election criteria Term Number of times they meet Meeting attendance Changes in the board	Boards Responsibilities Biographic details and pictures Election criteria Term Number of times they meet Meeting attendance Changes in the board	Boards Responsibilities Biographic details and pictures Election criteria Term Number of times they meet Meeting attendance Changes in the board	Boards Responsibilities Composition Election criteria Term Number of times they meet	Boards Responsibilities Composition Election criteria Term Number of times they meet	Boards Short description about responsibilities Names Titles	Boards Responsibilities Biographic details and pictures Election criteria Term	Boards Composition Election criteria Names Titles	Boards Responsibilities Biographic details and pictures Election criteria Term	Boards Responsibilities Biographic details and pictures Election criteria Term	Boards Composition	Boards Composition

(continued)

Table VI.
Financial information
and report from
chairman of the Public
Interest Committee

	PWC	Deloitte	KPMG	E&Y
<i>Panel A: financial information</i>				
UK	Two years break up of revenues from audit and non-audit services and operating profits are disclosed	Two years break up of revenues from audit and non-audit services and operating profits are disclosed	Two years break up of revenues from audit and non-audit services and operating profits are disclosed	Only revenues for from audit and non-audit services two years are disclosed
Germany	Only one year revenues break up from audit and non-audit services are disclosed	Only one year revenues break up from audit and non-audit services are disclosed	Only one year revenues break up from audit and non-audit services are disclosed	Only one year revenues break up from audit and non-audit services are disclosed
Denmark	Two years break up of revenues from audit and non-audit services are disclosed	Only one year revenues break up from audit and non-audit services are disclosed	Two years break up of revenues from audit and non-audit services are disclosed	Only one year revenues break up from audit and non-audit services are disclosed
<i>Panel B: report from chairman of Public Interest Committee</i>				
UK	Attached in main report	Attached in main report	Attached in appendix	Not disclosed
Germany	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Denmark	Not disclosed	Not disclosed	Not disclosed	Not disclosed

(PIC) in the UK, therefore three out of four firms disclose not only the revenues generated from audit and non-audit services, but also their operating profits and the reports from the PIC, in contrast to Germany and Denmark.

Differences are also found between regulatory styles. The British oversight body believes in encouraging UK member firms to be more open and transparent. They perceive transparency reports as a firm's opportunity to differentiate itself from other firms, as described by one participant:

In the past, YYY went to speak to the regulators and after the first year, regulators made the observation that it was hard to differentiate between the big fours. Regulators were pushing us to be different and to be more transparent as it looked too generic. Regulators were encouraging us to think about additional disclosure (Partner, YYY Big-4, UK).

The British oversight body also commented the same:

What I have done in the past is I have compared the transparency reports that are published against the requirements and then looked to see whether firms go over and above that. What additional information the firms decide to give, and the other thing we are looking at is to see, from our point of view we regard the transparency report as firm's opportunity to differentiate itself from another firm. The danger of saying this is the minimum and then effectively you get a boilerplate. So, everyone has got a template and you just insert your own bit and then it is very difficult for the user to actually say what the actual differences are between these firms or is it actually relevant which firm I picked to do my audit if they all appear the same. So, those are the sorts of comments that we try to make in our inspection report. We try and highlight who perhaps has made a good disclosure (Member of oversight body, UK).

The above statement also indicates that, in contrast to Germany, the British oversight body tries to establish the best practice in the local market. On being asked about how the German oversight body tries to encourage firms to disclose more, one representative of the body replied:

I think we do not have a mandate to motivate them for any best practice because our task as a state authority is to do a compliance check. So, even if we consider one transparency report to be better than another, it is not our role to enforce any best practice. If the transparency report fulfills the

requirements of article 13, and we don't see a different reality in the inspection, even if there could be nicer wording or more content, then we could say that we are done (Member of oversight body, Germany).

Similarly, Denmark was found to be a late starter and, until 2013, there was no independent state audit oversight body evaluating the transparency reports of the Danish audit firms. During one of the interviews a Danish partner stated:

We have a new regulator. For the first time inspections are carried out by people from the state [...]. But realizing that the non-existence of an inspection unit was not in compliance with EU directives, Denmark received a warning that if we didn't change and created a public inspection unit, we would have a case against us by the EU, and since we are usually good EU citizens we immediately formed a state inspection unit (Partner, ZZZ Big-4, Denmark).

The role of inspection by an independent audit oversight body unit is critical in influencing the content of the reports. According to the regulation from the EU, Article 26 (European Parliament & Council of the European Union, 2014), the third prime objective of state inspection is to assess the contents of the transparency reports of accounting firms. The British oversight body is likely to be ahead of the other oversight bodies in this respect because they were established early. The British system of regulation is more open and transparent as it makes audit inspection findings publicly available for each large accounting firm. In comparison to this, in Germany it is forbidden by law to make the inspection results public. The audit inspection report findings in the UK not only reveal the audit quality review outcomes of the firm but also highlight the assessment of how informative the disclosures are in the transparency reports. By making these outcomes public, the British oversight body incentivizes firms to disclose these outcomes in their transparency reports and to promote the quality of reporting and auditing. The oversight body ensures that consistency is maintained among the firms in terms of the reported content in their annual report as well as the transparency report. It also publishes a combined inspection report on the contents of the transparency reports produced by auditors of PIEs. The oversight body aims to establish best practice with respect to transparency reports by highlighting the names of the firms that publish good, relevant disclosures and the firms that are not meeting the expected benchmark as defined by the British oversight body:

From the firms' point of view, in the audit quality inspection report particularly they (Big-4s) are named or they are not named as a good example. They see that as potentially embarrassing because all the firms want to be seen as best. So, by not naming them they almost feel publicly shamed, or if we say someone has been a particularly bad example or someone has failed to publish something that they should have done, then it's quietly damning on the firm because, particularly the big firms, see themselves as the market leaders and see everyone else trying to follow them (Member of oversight body, UK).

However, no such requirement of making the results public was found in Germany or Denmark. The results are published on an anonymous basis without naming any firm, as the following extract from an interview with a Partner from AAA in Germany shows:

Interviewer: Do you have interactions with your regulator with respect to transparency reports?

Partner: Not at all, unless we are not in compliance with the law or if they (regulators) have different views on what needs to be in the report.

Interviewer: Do regulators come back to you?

Partner: No, we just describe the facts. The regulators have the annual inspection of PIE clients anyway. They just check whether the contents of transparency reports are aligned with what is required by the law.

Interviewer: Why are inspection findings not disclosed in your transparency reports?

Partner: Because it's not required by the law. It is not required by the directive. So why should we do so when we are not required to do so? This is a cultural thing, who cares about this? This is just imposed by law and adds no value at all [...]. Regulators have their findings as well but currently these findings are not published, but there is a confidentiality rule. It's not allowed. They cannot do it.

The above quotes reflect how differences in the power relation between the state and the accounting profession in each country lead to differences in regulatory style, which in turn leads to practice variation between countries. German and Danish regulators only ensure that the firms are in compliance with the law, in contrast to the British regulators who aim to promote transparency by encouraging audit firms to publish more disclosures. The Danish regulator made an illustrative comment:

From a political point of view, Denmark is following the minimum implementation rule from the EU. Our government is giving high priority to situations or other rules from the EU, whose implementation makes sense from a local perspective. This is then considered but, as a rule, we are driving a minimum implementation. (Member of oversight body, Denmark).

Accordingly, Table VII shows that it is only the British firms that include the quality review outcomes in their transparency reports as these results are also publicly available on FRC's website, in contrast to other countries where these results are perceived to be a matter of confidentiality. This is also an example of how national coercive and mimetic pressures shape the content of transparency reports. In Germany and Denmark, there is no pressure on member firms from regulators or oversight bodies to publish quality reviews, nor have any of the firms attempted to establish a market practice by making the results public. Therefore, it can be inferred that coercive and mimetic pressures exerted at the national level drive practice variation between countries.

However, the network of Big-4s has a complex institutional structure (Malhotra *et al.*, 2006), where the member firms share not only the national institutional environment of the country in which they operate, but also the institutional environment of the international network to which they belong, thus giving rise to institutional duality. By prescribing transparency reporting guidelines to the member firms the global governing bodies of the two Big-4 firms try to exert coercive pressure (DiMaggio and Powell, 1983) over their member firms to comply with standard reporting practices in order to bring more consistency to the network. Consequently, due to the membership of this network, the Big-4 member firms attempt to adopt the globally prescribed transparency reporting guidelines. As stated by a Partner from ZZZ:

Yes, if I deviate from the global description, it needs to be reviewed, it needs to have a reason and, obviously, the standard reason would be the local legal requirements [...]. But we are doing a lot to ensure and uphold consistency at the global level (Partner, ZZZ Big-4, Denmark).

This multiple embeddedness in heterogeneous organizational fields may create divergent institutional pressures, specifically on those firms that are tightly controlled and

Table VII.
Quality review
outcomes

	PWC	Deloitte	KPMG	E&Y
UK	3 years external quality review outcomes and internal quality review outcome is shared	5 years external quality review outcomes shared	2 years external quality review outcomes shared	Provides a web link to find the outcomes
Germany	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Denmark	Not disclosed	Not disclosed	Not disclosed	Not disclosed

coordinated by the central governing body of the Big-4s. A partner in a German firm that belongs to a tightly controlled network illustrated this:

Well, one of the things to overcome internally, I mean one of them I remember, is, as I said, we are not allowed to deviate from the global template unless it is required by German law. One thing we discuss almost every year is the issue that relates to the results of the internal quality reviews. German companies, including other Big-4s, do not publish or do not say anything about the results of the internal quality reviews. Our global template requires us to do so and we always have tough discussions with the global body because, so far, we have not published quality review outcomes (Partner, XXX Big-4, Germany).

These results are in line with previous literature that shows that the organization fields are comprised of multiple competing logics and organizations manage to develop different sets of practices based on the dominant logic (Lounsbury, 2007). The above quote indicates, for example, that public reporting of quality review outcomes falls outside the boundaries of the existing German institutional practices and does not get recognized by the other firms in the German market. Thus, it is evident that the conflicting institutional pressures, from different directions, for tightly controlled firms can sometimes lead member firms to depart from their global transparency reporting practice. In this case, the more dominant logic for German member firms is to maintain legitimacy by conforming to the expectations of the national institutional environment and not publishing the quality review outcomes.

In summary, it is evident that for tightly controlled firms even though the imposed global reporting systems become a part of the member firms' reporting system, the elements of practice variation are introduced by adapting to the national institutional environment as it enables member firms to strike a balance between multiple competing institutional logics. The global transparency reporting practice of member firms that belong to a tightly controlled network is adapted and transformed according to the national market expectations. The member firms become more homogenous in the national market and more heterogeneous in their international network. For firms that are loosely controlled, transparency reporting practices are allowed to be developed based on the national market logic. Thus, in order to gain legitimacy, member firms attempt to become more homogenous in the national market by adopting or developing practices according to the national institutional demands. Consequently, cross-national differences in regulatory style, structure and governance of member firms, and limited usage of reports, contribute to explain the rationale for practice variation between countries.

5. Discussion and conclusion

The primary aim of this paper was to examine the transparency reports published by the Big-4 public accounting firms in the UK, Germany and Denmark in order to understand what determines the content of transparency reports within the network of large accounting firms.

Based on neo-institutional and practice variation theory, the study finds that the contents of transparency reports are particularly influenced by two factors; the degree of control within the firm's international network, and the demands of the national institutional environment in which the member firm operates. All firms monitor the transparency reporting activities of their competitors in the local market, which create mimetic and coercive pressures to follow a local market logic based on local regulatory style. For the loosely controlled member firms, this is the main explanation for the development of their transparency reporting. However, the more tightly controlled member firms are also subject to coordinated global reporting requirements in their international network. This multiple embeddedness sometimes creates divergent institutional pressures, which in turn leads to practice variation in elements of their transparency reporting and indicates the audit firms'

preferences to maintain external legitimacy in the local market over international legitimacy. However, it might be possible that the tightly controlled international networks become carriers of institutions (Scott, 2003) that diffuse international practices in their national market. In theory, these practices may in turn become models of mimetic imitation for the more loosely controlled firms, but the study found no evidence of this.

Two noteworthy findings in the study are the importance of the national audit oversight bodies and the absence of professional bodies in the development of transparency reporting practice. Although transparency reporting was originally introduced as a consequence of problems in relation to the auditing profession's social contract with society, the study did not find any evidence of normative pressures from local or international professional bodies like FEE or IFAC to manage transparency disclosures to reinforce public impressions of legitimacy. This may be because the public interest is formally represented in the national audit oversight bodies. Since successful representation is based on the silence of the represented groups (Callon, 1986), oversight bodies in countries with a critical public voice regarding audit quality such as the UK (see e.g. Sikka, 2009) may have had incentives to require more disclosure than actually needed to be on the safe side. Accordingly, the UK oversight body define transparency as imposing and encouraging additional stringent requirements above the minimum legal requirement, whereas in Germany and Denmark transparency is defined merely as complying with the minimum legal requirements.

However, in spite of the efforts placed on transparency reporting by audit firms, the usage of transparency reports is perceived to be very limited by auditors and regulators. This finding raises the question of why transparency reporting is required and/or allowed to continue in a way that does not create public interest. To discuss the explanations for this we draw on Meijer's (2013) suggestion that transparency may be analyzed from a strategic, a cognitive, and an institutional perspective.

The strategic perspective focuses on how transparency arrangements affect power relations. Powerful groups have an interest in maintaining institutionalized power relations and are therefore likely to resist new transparency arrangements that give other groups access to new information because this may transfer power to these groups. From this perspective, the EU's requirement that accounting firms report on transparency is thus an exercise of power over the international accounting firms. Transparency reports are rituals that demonstrate the EU's sovereignty and enforce the accounting firms' obedience, and may thus be seen as one element in the ongoing debate between the EU and the international accounting profession about the power to regulate accounting and auditing (see e.g. Humphrey *et al.*, 2011). Therefore, it matters little whether the reports are used by the public, and accounting firms are allowed a certain degree of discretion when it comes to the actual content, which may explain the variation found in this study. However, even with the limited use of the transparency reports, they still have a disciplinary effect as, to some extent, accounting firms act as if the reports are used when deciding what content to disclose. While it may be expected that such a disciplinary effect would lead the accounting firms to resist transparency reporting, the study did not find evidence of this. The likely reason for this is that the accounting firms also benefit strategically from transparency reporting. As Power (1994) argued, public disclosure may have a pacifying effect by convincing the public that something is being done about its concerns over independence and audit quality, thus deterring further inquiry into these issues.

The cognitive perspective is focused on how cognitive frames are influenced by or influence transparency arrangements. Analyzing the relationship between transparency and trust, Grimmelikhuijsen and Meijer (2012) found no effects of transparency on trust when users of information had high knowledge of the issue or a high general predisposition to trust. However, increased transparency did result in a rise in the degree of trust when users had little prior knowledge and a low level of general trust. These results are

interesting in relation to accounting firms because the implication is that transparency reports are not likely to influence the trust of users that are well informed about auditing or already trust auditors. Although the relationship between transparency reports and trust in accounting firms was not the object of this study, the views of the oversight bodies reported here indirectly support this view. As in the case highlighted by Grimmelikhuijsen & Meijer, accounting firms' transparency seem to function as a "hygiene factor": lack of transparency may generate distrust, a certain level of transparency is needed to create trust, but beyond this level more transparency does not create more trust. The findings of this study indicate that the necessary minimum level of transparency is already achieved by other means, such as the annual reports of the accounting firms that cover some of the disclosure also included in the transparency reports. Consequently, due to the limited response from the users of the report, the majority of audit firms do not consider it worth investing their time and resources in extensively developing the report by including rich information.

The institutional perspective is focused on how institutional rules are influenced by or influence new forms of transparency, for example, in the form of the intensive use of internet-based information. The choice of media directly influences two central dimensions of transparency: timeliness and comprehensibility (Grimmelikhuijsen and Meijer, 2012). Regarding timeliness, it is interesting to note that the media chosen to promote accounting firm's transparency is copied from the old and well known annual financial report, which has long been criticized for not being timely and, consequently, it has been suggested that it should be replaced with internet-based access to real time information (Elliott, 2002; Wallman, 1997). Thus, any stakeholder interested in timely information about audit firms is forced to look elsewhere for the information. The choice of an un-timely form of report may indicate that the strategic perspective has been more important to the EU's decision to require transparency reporting than the institutional perspective. The finding that audit oversight bodies are the primary users of transparency reports supports this. Similarly, the comprehensibility of transparency reports is not likely to be an issue for the present expert users of transparency reports, while in the strategic perspective it is not an issue at all.

Although there are potential reasons for the lack of public interest in transparency reporting, future research is needed to explore these. The focus of this study was limited to the perspectives of the Big-4's and the oversight bodies in regard to transparency reports. Future studies may also undertake a comprehensive view of clients and other stakeholders in assessing the view of transparency reports, particularly the question of why ordinary users of audit reports show little interest in them. In such studies a focus on the perceived relevance, timeliness and comprehensibility of transparency reports may help in assessing the extent to which they actually provide transparency on the performance of audit firms, which is a precondition for the reports to raise audit quality. Transparency may also be a precondition for trust, and future research may address the effects of transparency reporting on trust in audit firms or auditors.

Despite these limitations, this study has provided insights into the way in which the Big-4 accounting firms operate. It is a noteworthy finding that the networks of the Big-4 are not identical and that practices vary within these networks. This finding calls for a nuanced approach in future studies of the Big-4's organization and practices. It also questions the degree to which harmonization of auditing practices can be achieved by harmonized audit regulation alone. With differences between national adaptation of EU regulations, differences in the degree of control in the network, and differences in the preferences of the oversight bodies, practices will inevitably vary between countries. It is this ability to adapt transparency reporting practices to stakeholders' needs that is likely to determine the future of transparency reporting. As suggested by the findings, this may be achieved by the audit firms developing transparency reports as marketing tools to influence audit committees. It may also be achieved by the oversight bodies requiring disclosure practices that will turn

transparency reports into instruments to demonstrate audit quality differentiation in order to promote competition in the audit market. However, if the reports remain a ritualistic exercise of power that is of no interest to a wider public, their future is questionable.

Notes

1. Transparency may be defined as “the availability of information about an organization or actor allowing external actors to monitor the internal workings or performance of that organization” (Grimmelikhuijsen and Meijer, 2012, p. 139).
2. Public interest entities are defined in the EU Eighth Directive as listed companies, credit institutions, insurance undertakings, and other designated entities. There is some variation between member states as to which entities belong to the latter group (FEE, 2014).
3. Institutional logics are defined as the organizing principles that affect cognition and guide decision making in a field (Friedland and Alford, 1991). In previous research, examples of divergent institutional logics that lead to practice variation are contradictions between efficiency logics and local community logics in banking (Marquis and Lounsbury, 2007); between a multinational company’s standard operating procedures and a sub-unit’s internal logics (Lukka, 2007); between global and local management control logics (Cruz *et al.*, 2009); between efficiency logics and customer-oriented logics in performance management practices (Modell and Wiesel, 2008); and between public administrative and professional accounting logics in the development of public sector internal auditing (Arena and Jeppesen, 2016). Furthermore, in auditing there appears to exist a contradiction between professional and commercial logics (Zeff, 1987, 2003a, b; Hanlon, 1996).
4. For some of the firms, we compared 2011 reports against 2012 reports due to the unavailability of all reports for the year 2012, as the financial/accounting year varies from firm to firm. Furthermore, by law, audit firms are allowed to remove the reports from their website two years after publication.
5. In the UK the Financial Reporting Council (FRC), in Germany the Abschlussprüferaufsichtskommission, and in Denmark Revisortilsynet.

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