

Project Report

Future Perspectives on the Auditing Profession*

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Preface

In recent years, the auditing profession has been influenced by various factors and events. In addition to corporate scandals and enhanced regulation by the EU, growing globalization, new IT developments, and the global economic crisis have driven changes in the auditing profession and its surrounding environment. Broad discussions about the future of the profession underline the need for auditors to prepare for potential changes in both their immediate and wider surrounding environment. Against this background, the Institute of Accounting and Auditing and the Institute of Business-to-Business-Marketing, both University of Muenster, launched an extensive research project on behalf of the Institute of Public Auditors in Germany (IDW) about future perspectives on the auditing profession. The purpose of this paper is to give an introduction into the project, summarizing the approach pursued during the project and pointing out certain important conclusions of the research study.

The methodological approach was awarded with the Academic Award at the World Congress of Accountants of IFAC in November 2014.

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1 Introduction: A Three-Dimensional Approach

Due to rapid changes in various areas the auditing profession is constantly facing new and massive challenges. In order to be able to respond quickly to events as they occur, it is essential to consider and anticipate possible developments and have plans in place to address different potential situations.

Thus, everyone dealing with future perspectives on the auditing profession in 2025 has to consider three problems:

1. What are possible future developments of the auditor's **environment**?
2. In which way are **different groups** of audit firms (e. g. small, medium-sized and large audit firms) influenced by those developments? Are there differences between these groups?
3. Which **strategic approaches** may help audit firms to derive possible and necessary options for action?

On the basis of those three questions it is possible to create a three-dimensional space, depicted by a cube (c. f. illustration 1; for presentation purposes we extended the cube to a cuboid but will continue to speak of a cube). The anterior area ("Scenarios") addresses the question of possible developments. The area on the right-hand side ("Player") represents the different groups of auditors whereas the upper area of the cube is to answer questions about strategic approaches ("Strategy Points"). This approach creates the possibility of considering different perspectives on the future of the auditing profession.



Illustration 1: The cube structure

Two approaches may be used to model anticipated developments in the future:

Forecasts are based on historical data and provide probability statements regarding the future. The main disadvantage that might lead to dramatically wrong decisions is the high deviation especially between long-term forecasts and the actual development. Alex Lewyt, for instance, predicted nuclear-powered vacuum cleaners as far back as 1955. Beyond that, a huge consultancy firm working for AT&T estimated that the worldwide demand of mobile phones would be 900,000 in 2000.

Scenarios, however, debate possible alternatives concerning the environment's development without taking into account respective probabilities. Therefore, **various possible future developments** are reflected upon in order to depict the actual future in a more comprehensive way.

We decided to use scenario analysis for the assessment of the future. This analysis evolved into eight scenarios.

We analyzed each of the scenarios separately for each sector (**players**) large, medium-sized and small audit firms in order to ensure that the statements made and advice given are sufficiently precise and the recommendations generated practicable. As the various groups are affected in different ways by the occurrence of a scenario, their strategic reactions vary from one another. This differentiation has been accounted for by discussing possible **strategic approaches** with regard to the reactions to different scenarios during several workshops and interviews with our experts. In this context, the strategic options for action have been condensed into 14 so-called strategy points.

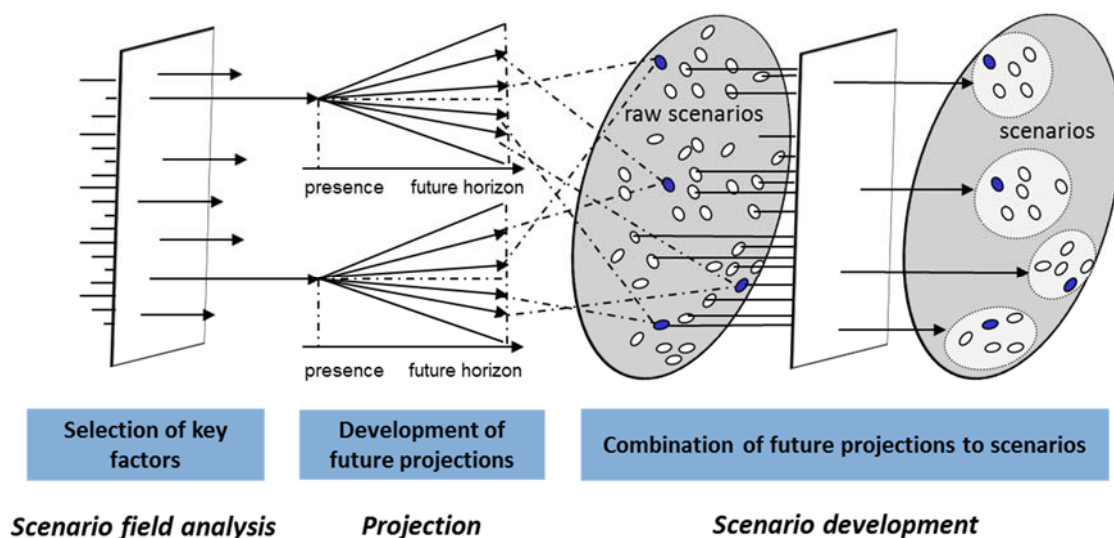


Illustration 2: Development of the scenarios in three phases⁴

⁴ In the style of Fink, A./Schlake, O./Siebe, A., Erfolg durch Szenario-Management – Prinzip und Werkzeuge strategischer Vorausschau (2001), p. 75.

Objective of the study

This study aims to systematically deduce results from the dialogue conducted with experts and to scrutinize those results at the same time. The purpose is to build a link between knowledge about possible future developments of the auditing profession as well as to derive consistent future developments (scenarios) and possible options for action.

In the course of the project, we were supported by **around 100 experts**. This number includes not only auditors, but also many other professionals with a strong connection to the auditing profession such as representatives of clients and academics, consultants, politicians and IDW staff.

Our recommendations might

- serve as **benchmark** for comparison with a firm's own strategic considerations;
- be adopted as **actions** if the firm considers them to be plausible;
- **be rejected** if not persuading and the firm assumes it has better solutions. However, in this case, our results may be used as a check list in order to realize the firm's own position.

Against this background, it is necessary to emphasize that the future always remains uncertain. Yet, in order to be able to react faster in the event of a certain scenario, the scenario analysis can be a great support. Even though the future is uncertain, there surely will be changes affecting all auditors to a varying extend and which they should be prepared for. The scenarios and the respective recommended strategic approaches should already illustrate possible future developments. In the event of audit firms recognizing such developments in the market, they can structure their practices and examine questions of their strategy earlier and in more detail. For that, they can use the indicated options for action as a “fundamental tool”, enabling them to begin this process earlier.

It is not possible to outline all the details of our study in this report. However, we provide some important results with regard to the scenarios, players and strategy points. Aside from that, the so-called robust strategies are going to be elaborated in more detail. At first, we are going to illustrate briefly in which way the three dimensions “Scenarios”, “Players” and “Strategy Points” have been deduced.

2 The Dimension

21 The Dimension of Scenarios

211. The Development of the Scenarios

Scenarios are developed in a three-stage process: the scenario field analysis, the scenario projection and the scenario development (c. f. illustration 2).

The **scenario field analysis** sought to select those key factors that are particularly relevant in describing possible future developments of the auditing profession. To begin with, different areas influencing the auditing profession were identified. Besides the structure of the auditing sector itself, especially competition, clients, stakeholder, regulatory framework and IT as well as the economic and political environment and education and society have significant influence on the auditing profession. As part of an expert workshop, 44 factors attributed to the influence areas were collected. In a next step, with the involvement of the experts, the most influential factors were identified using network analysis and impact analysis. Thereby, 15 so-called key factors remain as the most influential factors on the auditing profession.

1. Structure of the auditors
2. Market for services of auditors
3. Auditing service
4. Consulting service
5. Audit fees
6. Client structure
7. Complexity of business transactions
8. Stakeholders' confidence in auditor
9. Legislation and regulation concerning auditors
10. Legislation and regulation concerning clients
11. Supervisory body's competence
12. IT environment
13. Economic development
14. Labor market

Illustration 3: Table of the 15 key factors⁵

⁵ For detailed information c. f. Rossinelli, C., Methodische Gestaltungsparameter zur Auswahl von Schlüsselfaktoren in Szenarioanalysen (2014).

Within the **scenario projection** possible future characteristics were defined for all of the 15 key factors in cooperation with the experts during several workshops. For instance, key factor 2 “Market services for auditors” led to the following four possible projections:

- market decline or stagnation with low competition;
- market growth with low competition;
- market decline or stagnation with high competition;
- market growth with high competition;

Having determined four to five possible future characteristics for each key factor, 62 future projections served as a basis for the next step, the actual **scenario development**. In this step, future projections for each key factor were combined. On the basis of the projections, raw scenarios, consisting of combinations of single projections of each key factor, were developed. This led to 1,073,741,824 so called raw scenarios. By applying different methods (such as a consistency analysis, cluster analysis and multidimensional scaling (MDS)), the amount of raw scenarios was reduced to eight scenarios best reflecting the different possible future developments of the auditing profession. During this phase of the project, we repeatedly worked in collaboration with our experts and found eight striking names for the different scenarios. The intention was to keep the different scenarios as heterogeneous as possible whilst depicting the future world in terms of a “map of the future” in a comprehensive way. Each scenario consists of the projections of 15 key factors. In order to display this map graphically, the different scenarios need to be positioned in an (n-1)-dimensional torus which in our case leads to 14 dimensions. Using MDS, the 14-dimensional torus can successively be broken down into fewer dimensions without losing too much relevant information. Our two-dimensional scenario map emerged using this approach (c. f. illustration 4). The purpose of the axes is to illustrate the most important relationships and differences between the scenarios.

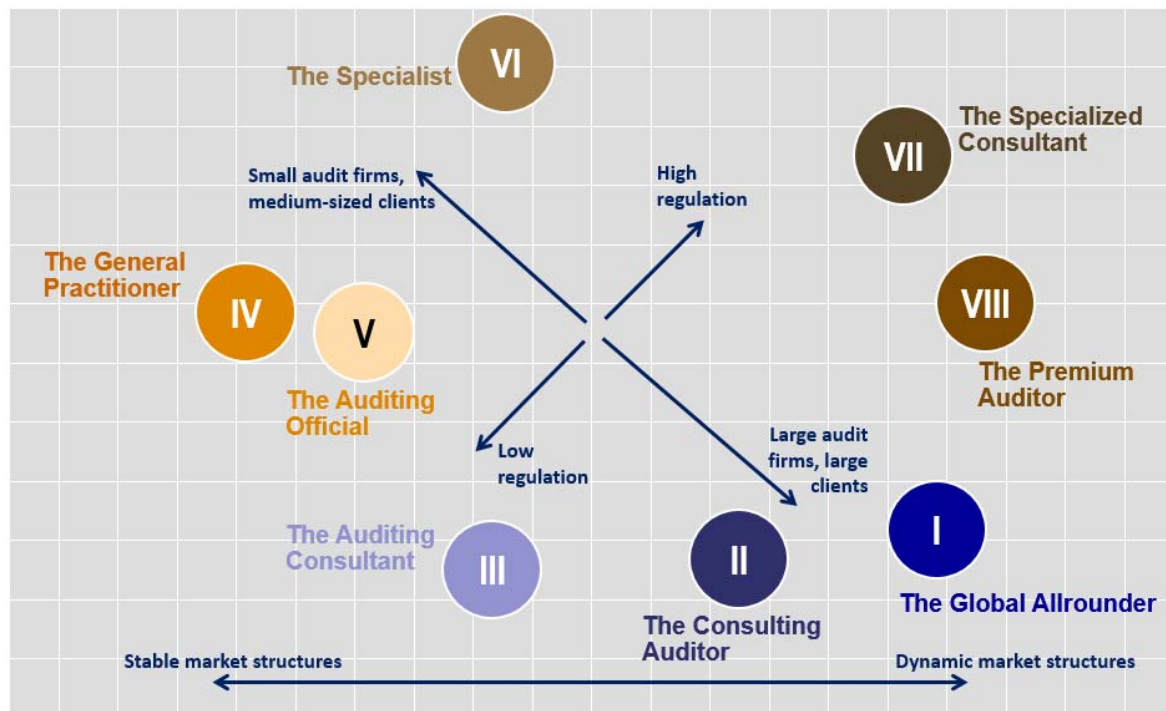


Illustration 4: The Scenario Map⁶

212. The Scenarios

212.1 Scenario I: The Global Allrounder

– Slightly regulated, large audit firms dominate global, growing markets –

Good economic development and advancing globalization promote large, internationally operating business entities. The auditing profession has followed these developments as well: Large, internationally cross-linked audit firms dominate the market. They are in particular able to meet the challenging demand of clients with regard to auditing and consulting services (“one-stop shopping”). The complex structures of the clients and transactions with high loss potential lead to tightened liability rules and an increased risk of liability for audit firms. During the audit process, auditors have many opportunities for individual performance design, which increases the relevance and value of their services to stakeholders. Increasing internationalization is also reflected on the labor market, where the international mobility of the global workforce ensures a sufficient number of employees. The development and widespread use of communication technology contributes to enhanced global connection.

⁶ The illustration was generated based on our results using the software Scenario-Manager™ of ScMI AG.

212.2 Scenario II: The Consulting Auditor

– Auditing at high risk of liability with chosen consulting topics –

The difficult economic situation creates hazards for auditors: They check complex, systematically relevant, potentially damaging business transactions and can be held responsible for the consequences of a deficient audit. Thus, the auditors focus on auditing to counteract possible liability claims and provide accurate, high quality, and in many cases specialized auditing performance. In addition, only audit-related consulting services are offered. Overall, the poor economic mood hits the auditors hard: The public adopts an increasingly negative image of the profession through media presentations of auditor failure in the context of corporate insolvencies, and clients' perceptions of the profession deteriorate. Due to clients' internal expertise and advancements in IT systems, clients perceive the work of the auditor as almost obsolete. Despite the negative job profile, sufficient human resources are available, due to the economic crisis.

Information box: What are scenarios and how do I read them correctly?

- Scenarios are alternatives without probabilities. They are based on alternative developments of key factors and must be assumed to be true by audit firms.
- Scenarios describe possible, consistent and unambiguous situations in the future. Scenarios as a whole depict the future in the best way possible.
- Scenarios are not assessed by the extent to which they occur but rather as to how well they prepare for different future situations and therefore help stimulate decisions.

212.3 Scenario III: The Auditing Consultant

– Auditing as a standard process leaves space for many consulting services –

In globalized, free markets, neither auditors nor their clients are strongly regulated, so both have a lot of freedom in their activities. Issues related to clients' business activities are clearcut, and demand for auditing services is reduced to "mandatory parts." Auditors secure a minimum quality of auditing and thus enjoy great confidence. The audit consists of relatively simple, standardized processes, and IT leads to substantial increases in efficiency. Thus, while still offering audit services, audit firms shift their main business to the consulting area; the audit constitutes additional business. Due to the changed activities, the requirements for auditors focus on advisory skills.

212.4 Scenario IV: The General Practitioner

– Many small generalists dominate regional markets –

In a stagnating environment, the signs are all toward regionalization. Politics is regionally oriented, and regional economic areas become increasingly important. Medium-sized companies dominate the regional markets. The auditors align themselves regionally. Regionalization is characterized by simple business processes and their comparatively uncomplicated financial reporting. Thus, the audit is a simple process for the auditors. Accordingly, clients have low expectations of the audit, but they rely on auditors as their competent single point of contact for all business issues and advice. Despite a generally high availability of labor, the profession has recruitment problems due to the changed job profile and must resort to low-skilled newcomers. Audit firms adjust themselves to the regional environment and can, as well as their clients, be characterized as medium-sized.

212.5 Scenario V: The Auditing Official

– Pure audit with regulated fees –

Pure audit firms do not provide consulting services. In the strictly regulated environment, audit firms have virtually no freedom of action. Thus, though the audit spectrum has expanded, the audit process is strongly tied to specifications. The fees for auditing are regulated in such a way that earnings from auditing services are adequate. Clearly structured business transactions cause the mostly medium-sized clients to consider audit work simple and less relevant. The rather negative economic environment leads to concentration in the auditing sector, which is therefore dominated by a few large corporations. The not particularly good reputation makes auditing a less attractive profession.

212.6 Scenario VI: The Specialist

– Medium-sized specialized audit firms dominate regulated, regional markets –

Recession or stagnation characterizes the overall economic situation. Markets are walled off regionally. In the crisis, the mainly medium-sized companies are left on their own. They are exposed to extensive regulation that differs by region. Thus, audits require a high degree of specialized knowledge, and many auditors occupy market niches. Specific expertise is also used for audit-related consulting, which serves as a means to make up for potential financial losses in the highly competitive, financially unattractive audit market.

212.7 Scenario VII: The Specialized Consultant

– Audit firms complement the anchor “audit” business by focusing on audit-remote consulting –

Auditors do not enjoy auditing, because of the onerous liability obligations and complex, potentially harm-intensive business transactions. Offering consulting services is of existential significance. Thus, the motivation for the audit business is not based on economic aspects. Specialist knowledge is required in this complex world, so auditors use pure auditing services as an anchor and generate audit-remote consulting mandates to make their business profitable. In addition, technological developments allow audit processes to be much more effective, so resources can be allocated to increased consulting services. The auditors are appreciated as important knowhow providers by their clients, and the profession thus becomes more attractive.

212.8 Scenario VIII: The Premium Auditor

– Audit firms fulfill the high expectations of their clients in regulated, international markets –

The growing global economic development provides the basis for an environment that offers optimal conditions for all participants in the growing audit market. In an international context, there are large economic regions; both auditors and their clients are highly regulated. The audit itself is more extensive and provides considerable added value for clients and their stakeholders. Because high expectations and demands are being met, the auditors enjoy great trust in terms of their professional and methodological expertise. Appreciation for the performance of audits allows the audit business to generate sufficient income. Additional revenues are generated by realizing synergies through expertise in the audit-related consulting area. Due to the emphasis on audit and audit-related consulting, competition from third parties is low. The job profile of the auditor is attractive.

22 The Dimension of Players

The auditing profession is not homogeneous. Business models reach from a single-person firm to a globally-positioned company with several thousands of employees that are i. a. differently positioned in terms of their professional competences. Thus, we subdivided the profession for this project into three groups:

- large audit firms;
- medium-sized audit firms;
- small audit firms.

The differentiation is not clearly defined, but should rather be seen as an orientation, and the transitions between the groups are fluid. The chosen classification is i. a. based on the turnover figures and the number of employees of audit firms. Hence, we define the so-called Big 4 and the next

four to seven smaller firms as large audit firms. The range of "lone fighters" with just one or two certified auditors up to firms with even more than one location, but still a double-digit number of employees, are subsumed under small audit firms. Therefore, firms with several locations, possibly even with international experience or networks, and with at least about 100 employees are regarded as medium-sized audit firms.

Readers of this study should assign themselves to one of these groups which is why the chosen differentiation can be seen as a suggestion.

23 The Dimension of Strategy Points

For the deduction of strategic actions for all affected players in all eight scenarios, we first discussed positive and negative implications of each scenario for the different players with our experts. Afterwards, we examined possible strategic actions. This impact analysis was the first important step towards a systematic deduction of strategic actions because it enabled us to create a catalog of possible strategy points based on these results. Strategy points can be seen as "adjusting screws", i.e., starting points for which different characteristics are possible and with which audit firms can tailor any individual action needed. This is the elementary difference to the key factors which are determined externally and whose projections form the framework of our eight scenarios.

Based on different analysis, the integration of experts and the consideration of a broad coverage of areas in which audit firms can start strategically, 14 strategy points ultimately remained in the final catalog of strategy points (see illustration 5).

1. Reputation
2. Business segments
3. Auditing services
4. Consulting services
5. Cooperations
6. Know-how
7. Employee development and specialization
8. Employer attractiveness
9. Quality assurance and control
10. Risk management
11. IT
12. Client relationship
13. Cost management

Illustration 5: The catalog of strategy points

Besides the scenarios and the players, the final catalog of strategy points forms the third and last dimension of the strategy cube (see illustration 6).

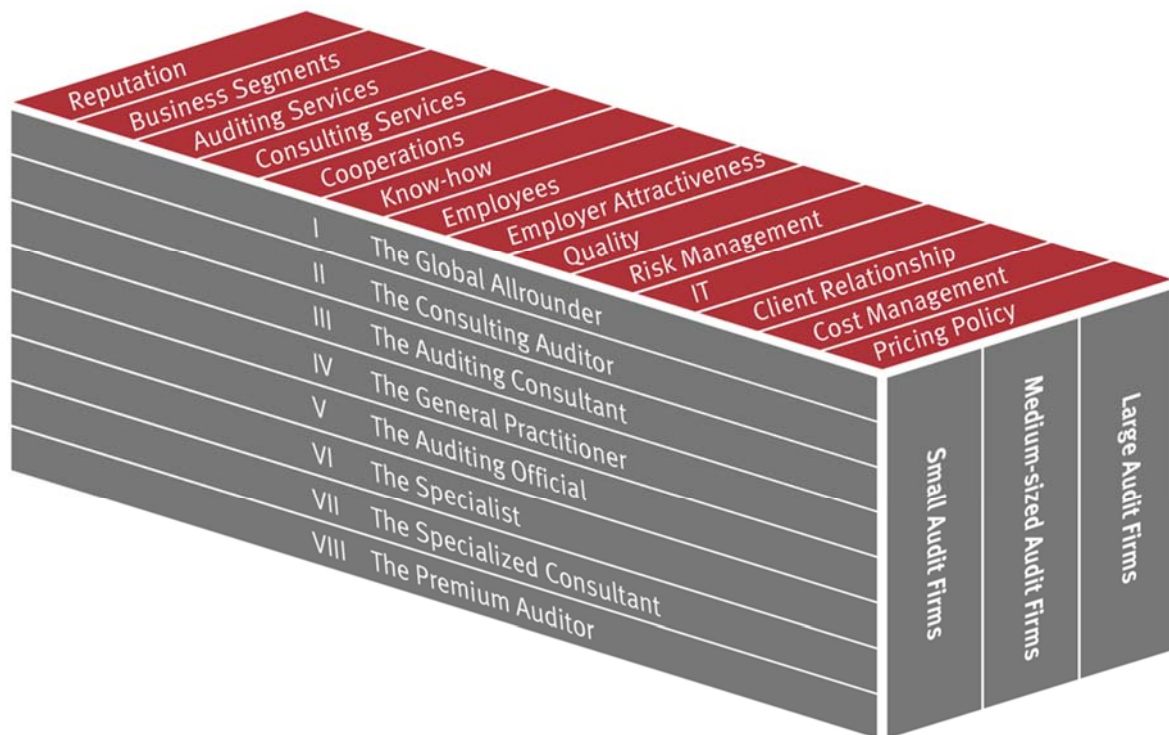


Illustration 6: The completed strategy cube

3 The Strategies

31 The Development of Strategic Recommendations

The key points for the strategy building were finally outlined with the three dimensions "Scenarios", "Players" and "Strategy Points". As a starting point for further consideration, they allow a first overall assessment of the scenarios for each particular player. Illustration 7 summarizes these assessments on a scale of three plus to three minus, whereby three plus means a very positive overall assessment and three minus a very negative one.

Szenario I The Global Allrounder			Szenario II The Consulting Auditor			Szenario III The Auditing Consultant			Szenario IV The Generalist		
large	medium	small	large	medium	small	large	medium	small	large	medium	small
+++	-	---	-	---	---	++	+	+	---	+	+++
Szenario V The Auditing Official			Szenario VI The Specialist			Szenario VII The Specialized Consultant			Szenario VIII The Premium Auditor		
large	medium	small	large	medium	small	large	medium	small	large	medium	small
-	---	---	+/	+++	+	++	+	+/	+++	+	---

Illustration 7: Overall Assessment of the scenarios for the individual player

Based on the 14 strategy points and in consideration of the overall assessment of the scenarios, we developed strategic actions for the three players for all eight scenarios using workshops. Theoretically this means that we developed actions for each of the 336 components of the strategy cube. In order to make this large number of strategic recommendations given by the cube manageable, we searched for certain patterns or structures. In order to do this, we distinguished between focussed and robust strategies (see illustration 8). While focussed strategic actions focus on single scenarios for each player, robust strategies also focus on each player, but are meant for multiple scenarios and thus can address either one strategy point or several strategy points as a more comprehensive model.

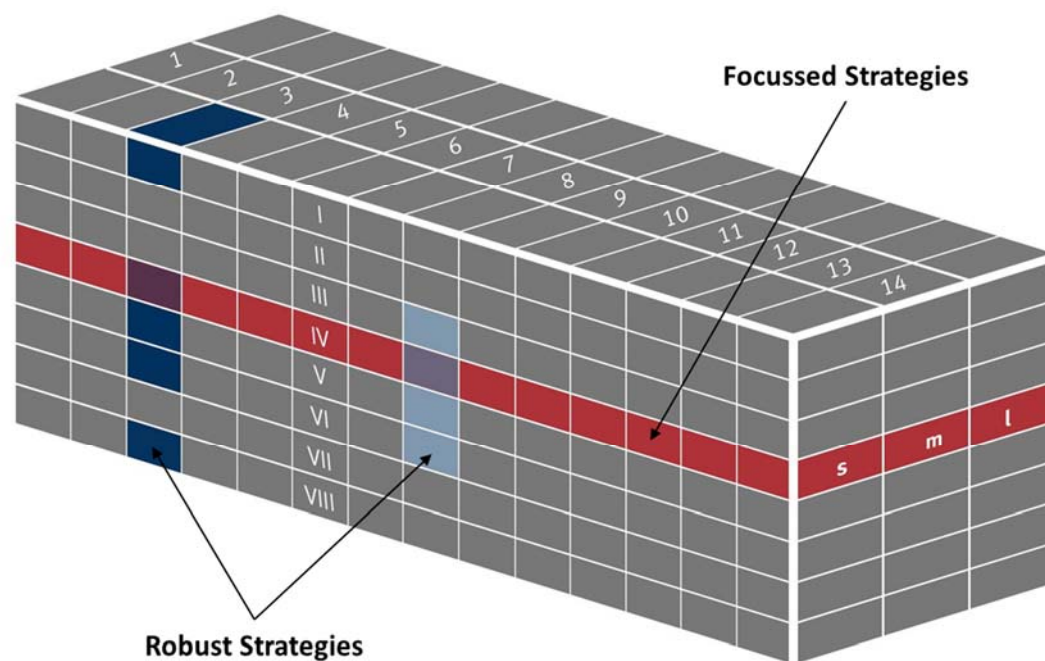


Illustration 8: Focussed and robust strategies in the strategy cube

After a rather general explanation of focussed strategic actions, this report concentrates on the robust approach concerning overall strategy points, which we introduce for the different groups. We have purposely not provided a comparison or discussion of potential conflicts that may exist between the groups.

32 Focussed Strategic Actions

Focussed strategic actions are those which can be followed by one player in a given scenario. They serve as a **preparation for a particular possible future**. If an audit firm assumes the future will develop in a certain way that comes close to one of these introduced scenarios, then this audit firm can base its own strategy on the recommended focussed strategic action which will help address this possible future. Our final report includes suggestions and proposals for each player in each scenario, so that they know how to prepare for the occurrence of a certain scenario and how to act and react in this particular environment. Due to lack of space we do not provide a detailed description of the focussed strategies for all eight scenarios. Instead, we briefly mention this perspective **using scenario VII**:

In scenario VII "The Specialized Consultant", the audit activity is no longer the main business, but can rather be seen as an anchor to gain profitable consulting contracts. This means a significant shift in the key activities towards increasing consulting services for all audit firms, especially in au-

dit-remote businesses. In this context, large audit firms can position themselves very broadly, extend their consulting services significantly and increase their employees' specialization as necessary. Even medium-sized firms have to pursue the trend towards specialization, but they have to focus on selected areas since, due to their limited resources, they cannot cover the entire range of topics. Small firms have even less resources, so they should focus on single niches for which they should become experts.

33 Robust Strategic Actions

331. Robust Strategic Approach for Large Audit Firms

Although there are differences between scenario I "The Global Allrounder", scenario II "The Consulting Auditor", scenario III "The Auditing Consultant", scenario VI "The Specialist", scenario VII "The Specialized Consultant" and scenario VIII "The Premium Auditor", there are also sufficient similarities. Therefore, it is possible to develop general robust strategic actions for all six possible futures which are particularly relevant for large audit firms. Illustration 9 summarizes the results (thereby, especially decisive strategy points are outlined in yellow).

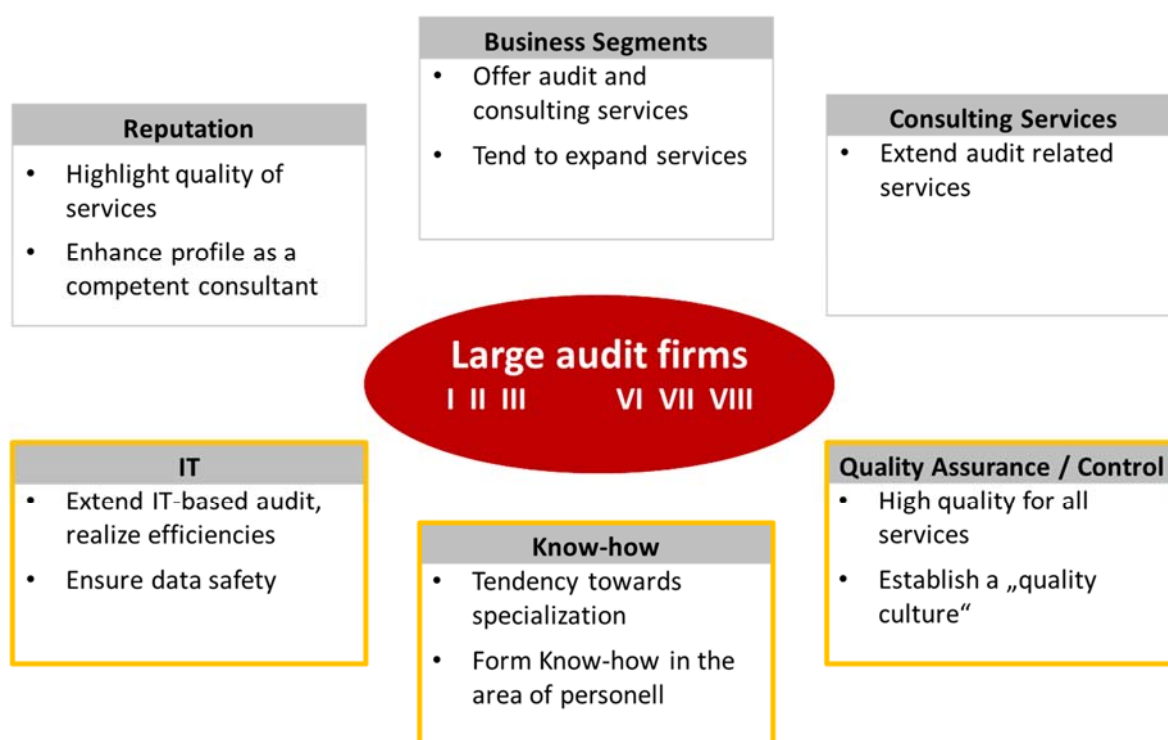


Illustration 9: Robust approaches for large audit firms across strategy points

The area of activity of large audit firms should still focus on auditing and consulting services. In general, the range of services should be extended. Each firm has to decide by itself which action can be added or expanded. This evaluation should be based on the firm's previous focuses and on the scenarios that the firm wants to be prepared for. In all scenarios audit-related consulting topics

are offered, although to different degrees. However, audit-remote consulting is not part of each possible future of large audit firms. Thus, a strictly robust strategy should contain audit-related consulting for all six scenarios.

It is essential to guarantee a high **quality** standard at all times as clients evaluate the quality of all services offered by audit firms in a critical way and faults can influence the competitiveness of an audit firm in a negative way. Quality is known to be the best risk precaution, so by establishing a new culture of quality, all employees should be sensitized to this significant topic, so that the firm's quality assurance and quality control measures will be effective.

Regarding the **personnel development**, large audit firms should follow and consistently implement the trend of staff specialization. Via internal concentration of the firm's know-how in different topics, audit firms are able to offer a wide range of topics as well as detailed expertise. This leads to a high attractiveness for a very big circle of potential clients and influences the fulfillment of quality goals. The enormous improvements in the development of **IT** support large audit firms in all actions. So this enables e. g. many audit activities to be supported through or be even completely based on IT. It also means that client service and other actions can become more location-independent thanks to new software. Another support is that automated quality controls and risk controls can be established, but there are many more advantages. This allows firms to increase both efficiency and quality. It should be noticed that data security has to be regarded as extremely important, which accordingly will require investment.

In the end, the reputation of large audit firms represents an important competitive factor. The most important goal for all actions and strategic approaches should be to achieve a very positive reputation. In this context, the high quality of services rendered should be a priority. Especially in scenarios I, III and VII firms should position themselves as competent consultants.

332. Robust Strategic Approach for Medium-Sized Audit Firms

It is also possible to develop general robust strategic actions for medium-sized audit firms for scenario I "The Global Allrounder", scenario II "The Consulting Auditor", scenario III "The Auditing Consultant", scenario VI "The Specialist", scenario VII "The Specialized Consultant" and scenario VIII "The Premium Auditor". These strategic actions enable firms to prepare for future developments (see illustration 10 for an overview in which especially decisive strategy points are outlined in yellow).

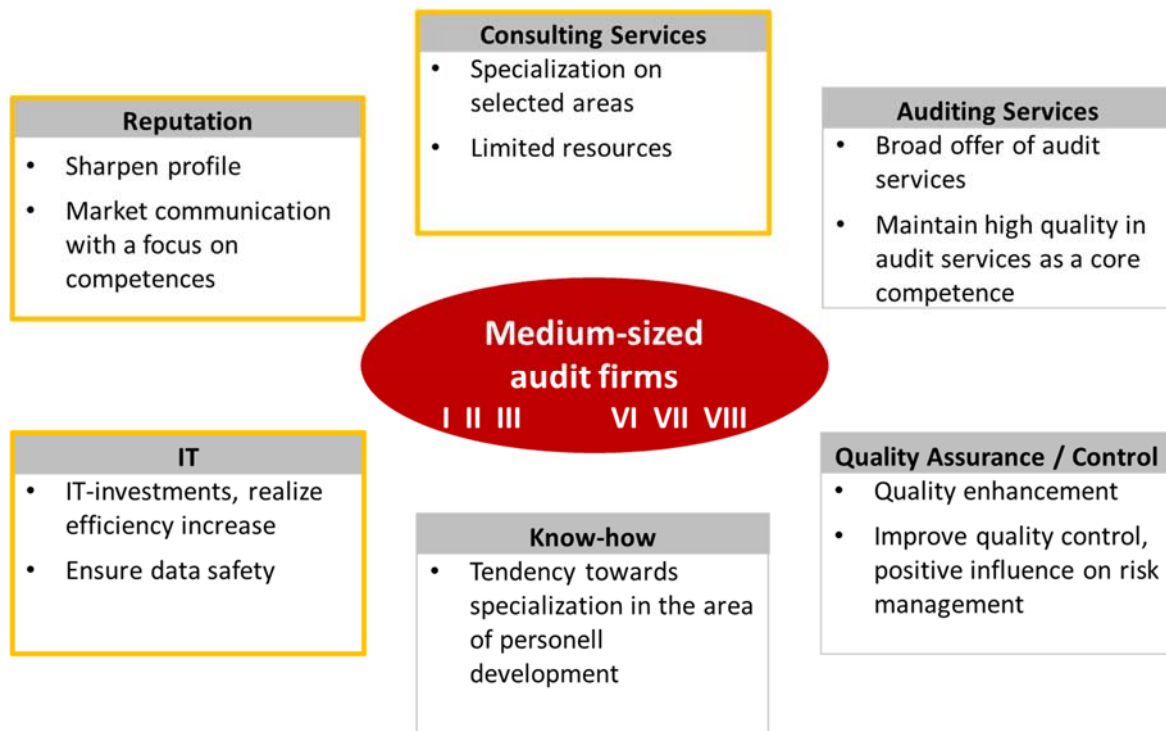


Illustration 10: Robust approaches for medium-sized audit firms across strategy points

Medium-sized audit firms should focus on offering a wide range of auditing services. Auditing is still an essential part of the business models for medium-sized firms in the possible futures I, II, III, VI, VII and VIII. They should be able to fulfill clients' requests for different auditing products, e. g. auditing according to German GAAP, IFRS or audit and assurance in respect of sustainability reports. Medium-sized audit firms strengthen their core competence by offering high-quality audit performance which also improves their clients' perceptions in a positive way. As medium-sized audit firms have limited access to resources, they should focus on their **consulting services**. Because of the concentration on certain topics, the firm can no longer fulfill all consulting requests. However, these firms should use expertise in their respective "niches" to promote their reputation as a competent specialist and thus to improve their engagement situation. Thereby, the choice of the right focus is crucial to their success. A position as a specialist in selected areas should be preferred to a position with thematic diversity, because the required detailed knowledge might not be guaranteed in a diversified positioning. In this respect, large competitors have advantages because they cover a wide range of topics due to their structure and resources. The competitive advantage of medium-sized firms has to be seen in the quality and the individualism of their services.

In general, medium-sized audit firms should aim at increasing their quality in all areas of activity, because quality is not just a fundamental factor concerning the competition, but is also an important factor regarding risk precaution. This leads to the fact that quality controls have to be implemented in a sufficient and effective way. Reaching the goal of a high service quality is only possible for medium-sized firms when they ensure the development of expertise by their employees. By doing this, profound know-how should always be guaranteed and consequently the firms should

promote their employees' specialization. Investments in IT infrastructure are indispensable for medium-sized audit firms to stay competitive in all six scenarios. New solutions in IT and new IT programs offer several possibilities for increasing efficiency. Thereby, data security should never be ignored. IT solutions could also support quality control.

Finally, medium-sized audit firms have to undertake great efforts to secure and support their **reputation**. A sharpened profile is urgently needed. Main focuses of the firms have to be communicated clearly within the auditing market. This makes it possible for audit firms to reach a stable market position and secure their successful continuance. Establishing the reputation should, among other measures, be supported by an attractive service offer, high quality auditing and consulting products which create visible added value for the clients and an individual client service.

333. Robust Strategic Approach for Small Audit Firms

In nearly all scenarios it can be recognized that small audit firms should – depending on the particular scenario – either act in a generalistic way, so they help their clients in different auditing tasks and other business tasks as "life consultants", or they should concentrate on selected main focus areas and thus act as specialists. This basic strategic decision depends on preferences and possibilities for specialization or on the competitive situation in their specific region. As these two orientations are very different, we identify generalists and specialists as two possible strategic approaches and consider both separately.

Small generalistic audit firms

Scenario I "The Global Allrounder", scenario III "The Auditing Consultant", scenario IV "The Generalist" and scenario VIII "The Premium Auditor" have in common that small audit firms have to act as **generalists** in these possible futures (scenario III and IV) or they have the possibility to position themselves as generalists (scenario I and VIII). All four scenarios are dominated by audit firms that offer a wide range of services. Illustration 11 summarizes the main factors for strategic options of small audit firms. Especially critical strategy points are outlined in yellow.

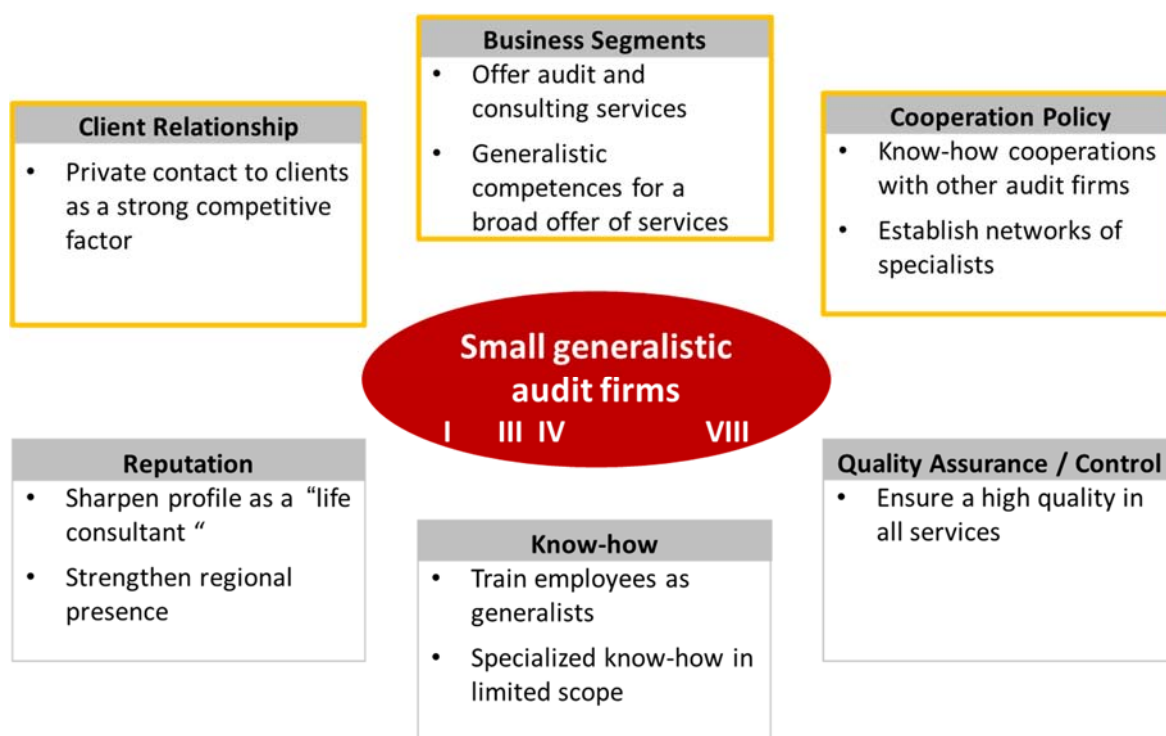


Illustration 11: Robust approaches for small audit firms acting as generalists across strategy points

In generalistic positions, small audit firms have to develop their **business segments** in a very extensive way. They should offer auditing services as well as audit-related and audit-remote consulting products. General business competency is the basis for audit firms to be noticed as competent "life consultants" and be the sole contact for their clients in all potential business matters. The core competencies of auditors are still accounting and auditing topics. However, these competencies are not sufficient to satisfy the demands of their clients anymore. The requirements generalists have to fulfill are increasing and especially for "lone fighters" in the auditing sector the generalistic orientation is very challenging. That leads to the fact that the staff consisting of qualified auditors and trainee auditors should be complemented by lawyers, consultants and IT-experts in small firms. In this context different types of cooperation may play an important role for small audit firms. Loose forms of cooperation can e. g. help generate and share know-how, or close connections can help distribute resources more evenly e.g., by cooperating even in personnel issues. Additionally, firms are able to discuss complex and unusual tasks together with their partners, so that the network members can help each other.

The assurance and control of quality in small audit firms serves to guarantee the consistently good quality of service. Thereby it is not necessary to aim at reaching the maximum of quality at all times and in every single scenario. Especially for quite specific tasks and those exceeding the tasks of the generalistic approach of small firms, clients would rather turn to relevant specialists. Nevertheless, auditors working for small generalistic firms should have broad basic knowledge, so they are able to sort and evaluate business transactions and problems. "Good life consultants" are not those offering the perfect solution for every single task, but they should rather recognize extraordinary and

very complex topics and, if necessary, consult the right experts. Therefore, it is also helpful to have small firms networking in cooperation. Employees of small generalists should gain profound basic knowledge in all common areas such as accounting, auditing, tax consultancy, business valuation, restructuring, company succession etc. which might be complemented through specific topics that are demanded regularly among the clients of a particular small audit firm.

Regarding their reputation, two aspects are of particular importance: On the one hand, small generalists should very clearly communicate their function as life consultants, such as offering an all-round service for their clients, and the resulting advantages of the firms. On the other hand, all activities that influence their reputation in a positive way should be oriented regionally to strengthen the firm's local presence, because clients of small firms are usually from the same region as the firms themselves. Thereby the personal contact **with their clients** and the resulting trust is an important competitive factor and starting point for auditors.

Small specialized audit firms

Scenario II "The Consulting Auditor", scenario VI "The Specialist" and scenario VII "The Specialized Consultant" require a strategic orientation as a **specialist** of small audit firms in the audit market. Due to low audit fees, firms are pushed into consulting. Even in scenario I "The Global Allrounder" and scenario VIII "The Premium Auditor", a position as a specialist is an option for small firms, because all five scenarios are characterized by nontransparent business transactions leading to higher complexity concerning the auditing process and partially even concerning the consultancy which is why auditors need to have competent knowledge. The specialization on chosen areas creates capacity for the development of detailed knowledge. Illustration 12 summarizes this robust strategic approach, thereby the most important strategy points for small firms are outlined in yellow.

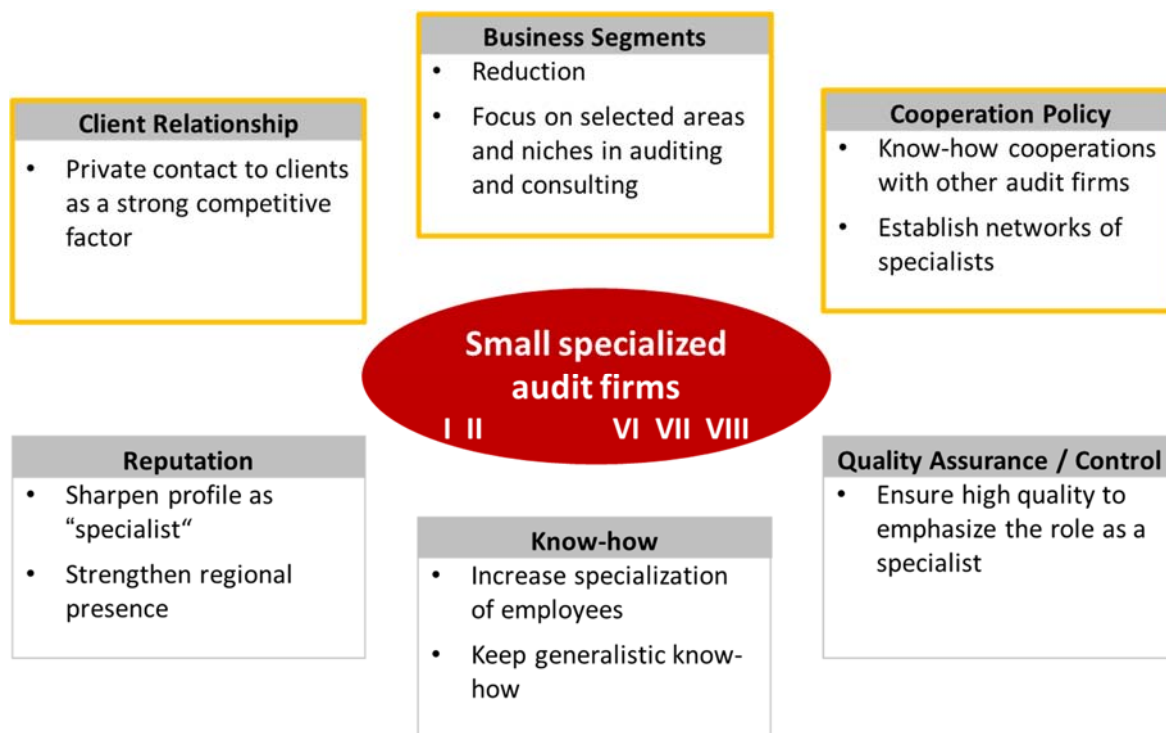


Illustration 12: Robust approaches for small audit firms acting as specialists across strategy points

To be a specialist means that small audit firms do not only offer the "standard audit business", but concentrate their consulting offer also on selected topics and thereby serve as providers in niche markets. This development leads to a reduction of **business segments** as there are less services offered. The choice of segments on which small specialists concentrate in the future is the most fundamental strategic decision and should i. a. be oriented on the firm's previous focuses and market demand.

Cooperations can be used by small specialists to gain, to process, to update and to enhance skilled knowledge together with other audit firms or just to exchange it. This concerns especially the general basic knowledge which is relevant for all auditors independent of their specialization. The association with other specialists in a network is equally important, because this enables the firm to contact the relevant experts quickly in urgent cases.

In contrast to generalists, specialists need to have a proprietary knowledge in their area of specialization. This explains their special position in the market and underlines their skills in finding solutions for complex and unique tasks. That is the reason why the training of employees working in small audit firms has to be adapted to the area of specialization and has to be seen as one of the most important tasks. Nevertheless, it should be guaranteed that all employees gain basic and general business knowledge and auditing know-how as well.

Just as generalists, specialists should work on their reputation to establish a clear profile. They have to explain their expertise and communicate their focus to the auditing market. This promotes the perception of small specialized firms as experts. They also have to strengthen their regional presence although the business field of small specialists usually extends over a larger area than that of

generalists. Because of the limited services they offer, the number of potential clients decreases. In order to promote their reputation, they have to keep in mind that also clients from other areas should recognize and contact them. The **relationship to their clients** is usually much closer in small audit firms than in medium-sized or large firms. This is a very important competitive advantage which can be used by specialists as well. They should offer an individual client service and work out tailored solutions for their clients.

4 Summary and Outlook

The constant and structural change on the audit market gives rise to new and ongoing challenges for audit firms. They have to start dealing with possible future development early, in order to be well-prepared for the future. This was also our motivation for the project "Perspectives of the auditing profession 2025".

We chose the scenario technique to describe several possible futures that cover the future of this profession as a whole. First, we collected influencing factors and selected 15 central key factors in consideration of the nearer and further auditing environment; these are factors with a very strong influence on the profession. Possible future characteristics of each key factor were projected. We formed scenarios using different combinations of these characteristics. In our study, we consider the following eight scenarios: scenario I "The Global Allrounder", scenario II "The Consulting Auditor", scenario III "The Auditing Consultant", scenario IV "The Generalist", scenario V "The Auditing Official", scenario VI "The Specialist", scenario VII "The Specialized Consultant" and scenario VIII "The Premium Auditor".

For further analysis we subdivided the heterogeneous auditing profession into three categories: large, medium-sized and small audit firms. We examined these players separately, so that concrete strategic options for action can be derived for each of them. Therefore, we identified strategy points, as adjusting screws, serving as starting points for the firms and helping them become active. We developed focussed and robust strategies based on a catalog of 14 strategy points. Focussed strategic approaches are those that can be used by a player as preparation for the occurrence of a certain scenario. It contains proposals and suggestions for the development of an individual strategy. Robust strategic recommendations can be intended either for one particular strategy point or for multiple strategy points, but are always deduced for multiple scenarios.

The results of our project are intended to provide stimuli for audit firms to deal with future development at an early stage and think about their own strategy based on our suggestions. As nothing is more certain than change.

Impressum



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