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Linking Corporate Institutional Logics and Moral Reasoning – Evidence from Large Danish Audit Firms**

Abstract

This paper examines whether organizational levels of owner/partner, CPA manager, supervisor and other audit staff are associated with institutional logics of auditors in large Danish audit firms. Our findings identify the presence of the professional logic and commercial logic with the professional logic being two explicit logics of a fiduciary and a technical-expertise logic. The organizational levels of CPA manager, supervisor and other staff are significant in explaining the presence of the technical-expertise logic, but not the fiduciary logic. Higher moral reasoning of auditors and being a female are significantly associated with the presence of the fiduciary logic. All four organizational levels are significant in explaining the identified commercial logic with further tests indicating that partners place more emphasis than supervisors on the commercial logic. Additional tests examine whether moral reasoning is associated with the professional fiduciary, professional technical-expertise and commercial logics and whether organizational levels explain moral reasoning. We find that a higher professional fiduciary logic is associated with higher auditor moral reasoning. In contrast, lower moral reasoning is associated with higher professional technical-expertise and commercial logics. In addition, increased audit experience is associated with lower moral reasoning.

Keywords: institutional logics, moral reasoning, audit firm, Denmark, audit partner
(JEL: M14; M40; M42)

Introduction

The role and scope of the audit function have been questioned since its modern inception in the second half of the 19th century with financial crises adding increased criticism from the public. A main concern for regulators, standard setters, oversight bodies and users is the innate conflict of interest between a professional logic and a market or commercial logic of audit firms (EC, 2010). One perspective is that an audit firm is a professional firm, driven by a focus on clients, social responsibilities, ethical conduct, professional care, and scepticism. An alternative perspective is that

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an audit firm is a commercial business, driven by attention to customers, revenue, costs, profitability, competition, and growth.

There have been concerns that audit firms are increasingly dominated by an institutional logic of commercialism, at the cost of the professional logic (Cooper & Robson, 2006; Robson et al., 2007; Suddaby et al., 2007; Sikka, 2009; Malsch & Gendron, 2013; Coetzee et al., 2019). Regulators have had to implement legislation to ensure that audit firms meet their professional responsibilities to the public, as witnessed for example by the latest EU Audit Directive and an EU Regulation for the audit of public-interest entities (EU, 2014).

The professional and commercial logics are institutional logics, defined as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton & Ocasio, 1999, p. 804). The influence of different institutional logics in accounting has been shown at the institutional field-level (e.g. Suddaby et al., 2007; Suddaby et al., 2009; Malsch & Gendron, 2013), and at firm-level (e.g. Lander et al., 2013; Carter & Spence, 2014). A core premise is that prevailing institutional logics embed the interests, identities, values, and assumptions of individuals and organizations (Thornton et al., 2012). Like Weber's notion of value spheres, different institutional logics represent different, sometimes reinforcing, often conflicting values that individuals can choose to follow (Cerbone & Maroun, 2020). Within accounting firms, these conflicts are increased when traditional professional public accountant logics are challenged by new logics (Malsch & Gendron, 2013; Cerbone & Maroun, 2020), such as consultants (Thornton et al., 2005) or legal professionals (Suddaby & Greenwood, 2005) joining accounting firms.

There are few studies which focus on institutional logics within the audit division of an accounting firm. Gendron (2001) and (2002) study the audit client acceptance decision and find different influences of the professional and the commercial logic within and between Big-4 audit firms, with some organizational components more reflective of the professional logic, and some of the commercial logic. Spence and Carter (2014) and Carter and Spence (2014) study the habitus of those who make partner in Big-4 firms, finding a dominance of the commercial logic and a notable absence of the professional logic.

We explore institutional logics within the audit divisions of large Danish accounting firms by analysing auditors' organizational values (Windsor & Ashkanasy, 1996). Initially, we explore whether institutional logics identified by researchers focusing on Anglo-American countries also apply in a European context, specifically the social-democratic welfare state of Denmark (Spence & Carter, 2014; Carter & Spence, 2014). Furthermore, we test whether institutional logics in audit firms are associated with auditors' level of moral reasoning (Kohlberg, 1969), differentiated between organizational levels of employment.

Our findings from administering an experimental questionnaire identify the presence of the professional and commercial logic, with the professional logic being two explicit logics of a fiduciary and a technical-expertise logic. The organizational levels of CPA manager, supervisor and other staff are significant in explaining the presence of the technical-expertise logic, but not the fiduciary logic. Higher moral reasoning of auditors and being a female are significantly associated with the presence of the fiduciary logic. All four organizational levels are significant in explaining the identified commercial logic with further tests indicating that partners place more emphasis than supervisors on the commercial logic. Additional tests examine whether moral reasoning is associated with the professional fiduciary, professional technical-expertise and commercial logics and whether organizational levels explain moral reasoning. We find that a higher professional fiduciary logic is associated with higher auditor moral reasoning. In contrast, lower moral reasoning is associated with higher professional technical-expertise and commercial logics. In addition, increased audit experience is associated with lower moral reasoning.

We contribute to the literature in several ways. Previous studies tend to focus on the nature of work undertaken by accountants, rather than directly interrogating social agents about who they are and what values and characteristics they embody (Carter & Spence, 2014). There are, as far as we are aware, no institutional logic studies on the values of actual auditors across different organization levels. We thus contribute firstly, by showing the existence of different institutional logics at the four organizational levels of owner/partner, CPA manager, supervisor and other staff. We do this by conducting an experiment of auditors on their organizational values in the five largest audit firms in Denmark rather than examining work practices.

Second, previous institutional logic studies of accounting firms are within Anglo-American jurisdictions, which differ substantially from a Continental European and Scandinavian context. Despite the globalizing influence of the large audit firms, auditors are individuals and it is possible that institutional logics vary in different countries (Lander et al., 2013; Spence & Carter, 2014; Alander, 2019). We thus contribute by examining institutional logics in the European context, specifically Denmark.

Third, we extend previous research (Anderson-Gough et al., 2000) by examining a relatively large sample of respondents (174), including gender diversity, at four organizational levels of employment in the firms. These four organizational levels are owner/partner, CPA manager, supervisor and other staff. Fourth, we contribute to research by using a quantitative approach that allows many of the findings to emerge from the data. Previous research has relied on interviews (Kornberger et al., 2011; Spence & Carter 2014) and focused on one level in the organization (Spence & Carter, 2014; Carter & Spence, 2014) or one firm (Kornberger et al., 2011). We employ an experiment where respondents answer predetermined questions and factor analysis is used to analyse their responses.

Finally, we contribute to the literature by determining whether moral reasoning interacts with institutional logics across the four organizational levels. Institutional logics incorporate cultural values that direct actors to some ends rather than others and commercial logics can theoretically suppress ethical and moral values of a professional logic. Institutionalized values are then more like a cultural "tool kit" (Swidler, 1986, p. 273), "differentially accessible to individuals and organizations to apply in social situations to fit practical needs in specific local settings" (Thornton et al., 2012, p. 9). They can be used for justification and as a mechanism for moral motivation. Auditor's ethicality and moral motivation in the context of institutional logics are examined using Kohlberg's theory (1969) of moral reasoning. We, therefore, provide evidence on whether these logics are related to auditors' moral reasoning, and whether this differs between organizational employment levels within the audit firm.

The remainder of the paper is organized as follows. Section 2 describes the institutional setting for this study, while Section 3 presents prior research and develops the hypotheses. Section 4 describes our methodology, while Section 5 presents the results. Finally, Section 6 concludes the paper.

Institutional Setting

Danish audit firms are expected to have a stronger focus on the professional logic than other European countries and global settings. This is because Denmark, like other Scandinavian countries, score high on feminine values and gender egalitarianism, valuing equality, care, interpersonal trust, close social relationships, low hierarchical structures, social obligation and social control (Emrich et al., 2004).

All statutory audits are regulated by the Danish Auditor Act (*Revisorloven*; RL § 1.2). The Auditor Act reflects a professional logic, in that it has specific requirements for auditors' education and experience for certification, and prescribes professional duties and responsibilities, including penalties for breaches of conduct. According to RL § 16, Danish auditors have to meet *good auditor practice*, which for audits means they are conducted in accordance with the International Standards on Auditing (ISA). A distinctive characteristic of Danish Auditor Acts since 1994 is that the auditor is considered to be "the confidential agent of the community" (*offentlighedens tillidsrepræsentant*; RL § 16). This quintessential characteristic of being the (independent) "confidential agent of the community at large" (Limperg, 1985, p. 43) fits well with Scandinavian values and a professional logic. Contrary to this, the same paragraph 16 in the Auditor Act implicitly shows a commercial logic, in that audits should be done as "speedily as the engagement circumstances allow", ensuring reasonable costs to the client.

Like most countries, Denmark experienced deregulation with respect to professional responsibilities. For example, from the first Auditor Act in 1909, auditors were prohibited from taking public office or working in other companies or lines of busi-

ness (general independence). After several years of lobbying by the Danish professional organization, an almost total liberalization was adopted in the 2003 Auditor Act and audit firms were allowed to engage in any consultancy business for which they had or could obtain the necessary competences. As a result, the commercial logic was strengthened compared to the professional logic. The main component of net turnover and profit within audit firms still came from audit services in the early 1980s (Christiansen & Loft, 1992). However, in 2016 consulting services were responsible for 69 per cent of total revenue in audit firms, compared to 31 per cent for audits (FSR, 2020). Another indicator of a diminishing influence of the professional logic is that in most cases, Denmark has chosen minimum implementation of the EU Audit Directive and Regulation for public-interest entities.

In comparison to common law countries, Danish auditors potentially have a more important governance function (Choi & Wong, 2007), because investor protection is weak in Denmark (La Porta et al., 2006; Djankov et al., 2007; Gul et al., 2013)[1]. Even though Danish auditors are jointly liable without limit for the full amount of any loss suffered by a third party, who relied on the auditor's report, liability is in practice limited to the audit firm's insurance policy's maximum amount. Also, there are few auditing-related court cases in Denmark (Sormunen et al., 2013).

All audit firms in Denmark were of Danish origin until the 1960s. The first international firms joining the Danish audit market were Price Waterhouse and Arthur Andersen (using their English names), following the firms' international strategy of growing through establishing new offices. They were mostly involved in auditing Danish subsidiaries of United States (US) and United Kingdom (UK) firms and provided more consulting than Danish firms (Christiansen & Loft, 1992). In the 1970s and 1980s, the larger, Copenhagen-based Danish audit firms expanded their position nationally by buying smaller provincial firms or establishing provincial offices. They also began to establish connections, albeit very loosely, with international audit firms. It was not until the 1990s that they adopted international audit methods, including statistical methods and risk analysis models (Christiansen & Loft, 1992; 1996).

Several mergers took place in 1989 and 1990, resulting in major changes to their organization and work practices, including an adaptation of the international audit manuals. In all the large firms, there was (and continues to be) a process of harmonization with their international partners on technical issues and management structure within the firms (Christiansen & Loft, 1992). Mergers have continued in this century, the latest large one being EY merging with KPMG in 2014. The 10 largest audit firms produce more than half the total audit market revenue. Strength-

1 On four investor protection indexes (anti-director rights index, index of disclosure requirements, index of liability standards, and index of public enforcement, for example, Denmark scores -1.256, compared to the United Kingdom 0.335 and the United States 0.939 (Gul et al., 2013).

ening the commercial logic, the global tendency of internationalization and concentration among audit firms is thus also observed in Denmark, although the process has taken longer and progressed more slowly than in the US and UK.

Prior Research and Development of Hypotheses

Institutional logics have material and symbolic characteristics (Thornton et al., 2012), where material characteristics are, for example, structure and practices, while symbolic characteristics can be culture, ideals and meaning. An important underlying assumption is how the comparative conflict and conformity of institutional logics (which are material and symbolic) influence human and organizational behaviour. An institutional logics' approach emphasises how institutions provide social actors, in our context auditors, with a highly contingent set of social norms, where behaviour is driven by a logic of consequences and appropriateness. Institutional logics thus represent "frames of reference that condition actors' choices for sense-making, the vocabulary they use to motivate action, and their sense of self and identity. The principles, practices, and symbols of each institutional order differentially shape how reasoning takes place and how rationality is perceived and experienced" (Thornton et al., 2012, p. 2). Understanding institutional logics thus allows comprehension of how organizational behaviour and change is influenced by cultural content and values (Ocasio, 1997).

The Professional Logic

Previous studies have shown two main logics in accounting; a professional logic and a commercial logic. Auditing is traditionally seen as a profession (for example Dirsmith, Covaleski & Samuel, 2015) and the professional logic has been the dominant logic for auditors to maintain their professional status (Malsch & Gendron, 2013). The professional logic focuses on giving professional care and service to clients and is very much based on traditional trustee values. In this context, the auditor is the "confidential agent of the community" (Limperg, 1985, p.11), being concerned for public welfare and accepting the social contract to independently audit the truth of corporate disclosure (Mautz 1988; Spence & Carter 2014). Society has given the auditing profession the exclusive franchise to independently audit the truth of corporate disclosures on the condition that the profession acts in the public interest[2], required by the code of professional conduct (Paisey & Paisey, 2020).

The professional logic focus on ethical behaviour for the public interest is a statutory demand in most countries. In Denmark, for example, the first Auditor Act was instituted in 1909 and included requirements for an auditor's integrity, competency and independence. From 1994 on, the Danish Auditor Act specifies explicitly that

2 The 2016 IFAC Code of Ethical Conduct for Professional Accountants does not clearly define 'public interest', particularly in the global context where different cultural and political systems have different views about public interest (see Baker, 2005; Dellaportas & Davenport, 2008).

the auditor is considered the *confidential agent of the community*, requiring the auditor to consider the needs and ethical norms of society and its stakeholders. Audit standard setters also endorse a mandatory code of ethical conduct to enhance auditors' social responsibility (Spence & Carter, 2014). For example, Section 100.1.A1 of the International Federation of Accountants' Code of Ethics states that:

> *"A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organisation. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest."* (IFAC, 2018).

The code appeals to auditors' altruism to enact professional ethical behaviour, based on values like integrity, objectivity, confidentiality, independence and professional scepticism (see for example IFAC Code of Ethics, 2018). Unlike the commercial logic, the professional is rewarded intrinsically for doing their duty for the benefit of society.

Moreover, the auditing profession's public interest duty is critical for its legitimacy (Paisey & Paisey, 2020) and public trust in the functioning of the economy and capital markets (Thornburg & Roberts, 2008). The global professional networks overtly promote professional values to enhance public confidence and legitimacy to attract business and to maintain professional self-regulation (Curtis & Turley 2007; Suddaby et al., 2007; Holm & Zaman, 2012).

The professional logic is thus associated with an auditor that believes that it is their social responsibility to verify a true and fair view of corporate reporting in the public interest for the economic well-being of the community (Limperg, 1985; Paisey & Paisey, 2020). It is shown that the character of different logics cannot be disentangled from staff members' level of employment in Big 4 accounting firms in UK and Canada (Spence & Carter, 2014). Professional values in the auditors' codes of ethical conduct should be prevalent in the audit firms that employ professional auditors in Denmark. Furthermore, the auditing firms need the overt promotion of professional values to acquire public trust and be given the responsibility to self-regulate. We, therefore, expect that the professional logic is present in employees at the four organizational levels in large audit firms in Denmark and hypothesis one tests for this as follows:

Hypothesis 1: Organizational levels of owner/partner, CPA manager, supervisor and other staff are associated with the professional logic of auditors in large Danish auditing firms.

The Commercial Logic

At the organizational field level, there have been historical shifts in institutional logics, most prominently from a professional logic to a commercial logic (Thornton et al., 2005). This can, for example, be seen in regulatory logics, where normative

principles of professionalism have changed to neo-liberal principles of market exchange of expertise (Suddaby et al., 2007). Another example is the way accounting firms advocated for Multi-Disciplinary Partnerships by using a market logic, advocating economic benefits and ignoring traditional core values of the professional logic, such as the public interest and professional ethics (Suddaby & Greenwood, 2005; Paisey & Paisey, 2020). Accounting associations have also played a role in this shift, by influencing ways of organizing accounting firms or perceptions of accountants' roles (Greenwood et al., 2002).

This shift in institutional logics is a shift in emphasis, not a total displacement because the traditional professional logic continues to be important (Suddaby et al., 2009; Lander et al., 2013). However, other logics and combinations of logics exist (Malsch & Gendron, 2013), and the emphasis can vary between different firms and geographical locations (Mautz, 1988; Spence & Carter, 2014). To illustrate, research finds that different logics are present when auditors make client-acceptance decisions. This means that an aggressive commercial logic of gaining new clients can co-exist with a professional logic (Gendron, 2002). However, it is unlikely that the two logics coexist equally; instead, a situation in which one dominates the other is likely to prevail, depending on the circumstances (Mautz, 1988; Gendron, 2001; Spence & Carter, 2014).

In contrast to the public interest and the protection of users, the commercial logic is client-centric (Robson et al., 2007; Spence & Carter, 2014). It focuses on economic relations with customers, based on maintaining and gaining market share through selling services, generating revenue bases, cutting costs, and ensuring profitability (Malsch & Gendron, 2013). This for example results in firms negotiating accounting treatments with their clients, rather than dictating accounting rules (Thornton et al., 2005). Auditing is similar in context with a service industry, a business, with intense competition between firms and within firms between engagement partners. The measure of success is the size of compensation in financial terms, which reflects the commercialization of auditing as a service commodity (Carter & Spence, 2014).

Competition in the audit industry has increased, concurrently with internationalization and globalization. Associated with the commercial logic, many countries have seen the auditing profession being deregulated, with many new services being offered, especially management consultancy services (Robson et al., 2007). In the US, for example, starting in the 1980s, Federal Antitrust bodies have enforced competition policy through changes to the professional code of ethics and accounting (Zeff, 2003; Kinney, 2005). Firms are now allowed to compete and bid for client work, including statutory audits (Kinney, 2005; Knechel, 2007). Denmark has also seen an almost total liberalization since the 2003 Auditor Act.

Paradoxically, state-enforced competition policies and deregulation have contributed to reduced competition for some sections of the audit market. Several accounting firms and their audit divisions have merged into global professional networks

that promote statutory audits as just one of the services offered (Curtis & Turley, 2007; Suddaby et al., 2007). Deregulation was supposed to foster more competition and lower fees. However, an oligarchy of Big 4 super-sized global firms now dominates audits and they are able to charge higher fees by marketing their brand as providing quality services (Hay & Knechel, 2010).

In general, professional organizations have undergone internal restructuring, mergers, new services and internationalization to meet the increased demands from clients (Brock, 2006). Audit firms' consultancy divisions have grown, as has the increase of commercial employees with non-professional backgrounds, such as consultants. Internal production conditions have also changed, focusing more on revenue and profit (Zeff, 2003; Greenwood & Suddaby, 2006; Malsch & Gendron, 2013; Carter & Spence, 2014). The auditing profession's public interest duty is strongly challenged by the imposition of deregulation that encourages the auditor to become "entrepreneurially-minded agents" instead of "disciplined professionals" (Kornberger et al., 2011, p. 3). Although resisted by some in the profession, Zeff (2003, p. 202) argues that competition among firms "came to be signified more in the idiom of commerce – the aggressive pursuits of profits – thus placing strains on professional values". Accounting firms have thus faced substantial pressure from, often conflicting, institutional logics and uncertainty in the past and will continue to do so in the future (Brock, 2006; Cerbone & Maroun, 2020).

The focus on profitability has resulted in competitive bidding for client business. However, this has also occurred between and within audit firms, as prospective engagement partners compete for client business. To encourage entrepreneurship, the large audit firms are internally structured as a network of *micro-businesses* managed by a partner who competes externally and internally for client business. The entrepreneurial partners are in charge of a small number of audit teams responsible for servicing, maintaining and growing their client portfolio (Kornberger et al., 2011). Competition within firms is high as auditors are financially rewarded for achieving performance goals that tend to overshadow professional objectivity and scepticism (Francis, 2004; Knechel et al., 2013). This entrepreneurial environment thus suits the values of the commercial logic auditor.

Entrepreneurial values are also encouraged within businesses to control individual employees through reward (or punishment) linked to their performance. Trainees are socialized in the way they serve client needs, charge for time and their professional appearance (Anderson-Gough et al., 2000). The commercial logic is associated with auditors working towards individual specialised rewards, much like a professional sports star (Mautz, 1988). The measure of success is the size of compensation in financial terms that reflects the commercialisation of the audit as a service commodity (Jeppesen, 1998; Wyatt, 2004).

Under the competitive commercial logic, individual achievement is measured by quantifiable metrics such as commercially-oriented key performance indicators or

measurable organizational goals determined by management. Dirsmith et al. (1997) describe how the big accounting firms, once considered to be democratic and decentralised, imported the management-by-objectives approach from their corporate clients to enhance the power of centralised management over practitioners. Moreover, the management-by-objectives approach encouraged practice partners to establish generally-stated financial roles such as "achieving specific audit fees for new business" (Dirsmith et al., 1997, p. 13). Thus, management-by-objectives stresses individualistic financial goals to achieve promotion and "helped de-legitimate and de-institutionalize the professional autonomy of the practitioner component" (Dirsmith et al., 1997, p. 20) through the social process of mentoring.

Commercialism has occurred in accounting firms in other geographical locations (Anderson-Gough et al., 2000; Robson et al., 2007; Kornberger et al., 2011) and we expect to find this logic in large Danish audit firms for audit partners/owners, CPA managers, supervisors, and other audit staff. Auditing firms in Denmark have been slower to follow global firms than the US, UK and Canada and have a different market structure. However, changes in the Danish audit market suggest that the commercial logic potentially exists at the four organization levels in Danish audit firms despite the strong social-democratic welfare influence in the country. This leads to hypothesis two as follows:

Hypothesis 2: Organizational levels of owner/partner, CPA manager, supervisor and other staff are associated with the commercial logic of auditors in large Danish auditing firms.

Corporate Logics and Moral Reasoning

The organizational values, and thus logics of audit firms, have been found to influence auditors' ethical judgments (Windsor & Ashkanasy, 1996; Douglas et al., 2001; Sweeney et al., 2010). We, therefore, examine auditors' moral reasoning as a socio-moral characteristic that underlies auditors' professional judgment (Bailey et al., 2010). Kohlberg's theory (1969) of moral reasoning is an appropriate personal characteristic with which to examine auditors' ethicality in the context of audit firm corporate logics, as it deals with macro morality or moral systems, rather than with micro morality or direct personal issues (Rest et al., 1999).

Kohlberg's (1969) theory of developmental moral reasoning is one of the most widely used theories in justice psychology (Jones et al., 2003) that has been applied in auditing contexts (Louwers et al., 1997; Bailey et al., 2010). Kohlberg (1969) advanced a psychological theory of cognitive moral development and philosophical theory of normative ethics (Rest, 1979a; Rest et al., 1999) that adheres to the deontological theories emphasising justice or fairness judgments.

Attitudes of practitioners seemed to have changed, with practitioners being less concerned about the profession's status and more concerned about audit firm prof-

itability, that is, a commercial logic. The pervasiveness and importance of values and beliefs in organizations are fundamental to the process of identity formation (Ashforth & Mael, 1989). Audit quality and professional legitimacy may suffer if the commercial logic through economic incentives associated with client fees reduces the engagement partner's professional logic, specifically independence and objectivity (Liu & Simunic, 2005; Bazerman & Moore, 2011; Knechel et al., 2013). Knechel et al. (2013) show that the level of partner compensation is higher when the partners' personal client portfolio and acquisition of new clients are higher for Swedish Big 4 Audit firms. They also found that the magnitude of the link between increased personal compensation for audit partners' income and attracting new clients is higher for more senior partners (Knechel et al., 2013).

Auditors who value the social contract, as explained by Mautz (1988), also value universal principles of respect for people (Kohlberg, 1969). Doing right is concerned with universal principles of justice: the equality of human rights and respect for people's dignity. To reveal practitioners' values about their professional obligation to be socially responsible, audit firm corporate logics are thus expected to be linked to auditors' moral reasoning. Values associated with the professional logic are more likely to be positively related to auditors' moral reasoning.

Alternatively, the commercial logic values are more aligned with individual entrepreneurship that encourages competitive performance to achieve individual financial reward, rather than professional values concerned with public welfare. The commercial logic values aggressive competitiveness, results orientation, individual achievement orientation, and opportunism. For these reasons, the commercial logic values are more likely to be negatively related to auditors' moral reasoning. Therefore, we present hypothesis three as follows.

Hypothesis 3: Institutional logics are associated with moral reasoning of auditors in large Danish auditing firms.

Methodology

Hypothesis one and two relate to the association between organization levels in the audit firm and a score of the three institutional logics, while hypothesis three tests for the relations between a score of the three institutional logics and moral reasoning of auditors. Three separate regressions are estimated for professional-fiduciary, professional technical-expertise and commercial logics. The fourth regression estimates moral reasoning as the dependent variable and tests for the association between the institutional logics and organizational level. We estimate ordinary least squares regressions because the dependent variable is a continuous number in all four cases. The models are as follows:

Fiduciary / Technical-expertise / Commercial	=	β_0 + β_1Parter + β_2CPA manager + β_3Supervisor + β_4Other + β_5Moral reasoning+ β_6Female + β_7Experience + β_8Age + β_9Education + β_{10}Firm + ε (1–3)
Moral reasoning	=	β_0 + β_1Parter + β_2CPA + β_3Supervisor + β_4Other + β_5Fiduciary + β_6Technical-expertise + β_7Commercial + β_8Female + β_9Experience + β_{10}Age + β_{11}Education + β_{12}Firm + ε (4)

Where :

Fiduciary	respondents' factor score on the organizational culture profile questionnaire identified as professional-fiduciary.
Technical-expertise	respondents' factor score on the organizational culture profile questionnaire identified as professional technical-expertise.
Commercial	respondents' factor score on the organizational culture profile questionnaire identified as commercial.
Moral reasoning	respondents' score on the defining issues test.
Parter	1 if owner/partner, otherwise 0.
CPA manager	1 if employed certified public accountant, otherwise 0.
Supervisor	1 if supervisory level employee, otherwise 0.
Other	1 if non-management employee, otherwise 0.
Female	1 if a female, and otherwise 0.
Experience	number of years of audit experience.
Age	age in years of the respondent.
Education	Certified Public Accountant = 1 if highest level of education is Certified Public Accountant, and otherwise 0. Master of Business Economics and Auditing = 1 if highest level of education is Master of Business Economics and Auditing, and otherwise 0. Graduate Diploma = 1 if highest level of education is Graduate Diploma, and otherwise 0. No formal tertiary qualification =1 if no formal tertiary qualification, and otherwise 0.
Firm	Firm A, B, C, D, E = 1 if a member of the specific firm, otherwise 0.
ε	Error term

We control for the audit firm and for personal characteristics of the auditors that have been linked to institutional logics and ethics in previous research. These variables are gender, years of experience, age, and education (Kristensen et al., 2017; Sun et al., 2019; Hollindale et al., 2019).

Measurements

Institutional logics are measured using a modified organizational culture profile (OCP) questionnaire (Windsor & Ashkanasy, 1996). The OCP has demonstrated construct validity and stable factor dimensions across samples, including accounting firms (Chatman, 1991). Windsor and Ashkanasy (1996) modified the OCP from a Q-sort approach to a normative questionnaire comprising value items, each with a 5-point Likert scale to test auditors' responses. Thus, values are assessed independently of one another (Boxx et al., 1991). Finally, ratings are less cumbersome than rankings, making a normative format of OCP more convenient to administer (Sarros et al., 2005).

Rather than the *Moral Judgment Interview* (MJI)-approach, we follow other behavioural accounting researchers (Louwers et al., 1997; Jones et al., 2003) and use Rest's (1979b) Defining Issues Test (DIT) to measure moral reasoning. DIT is an objective test of moral development in questionnaire form, where the output of the *P* score is continuous, rather than MJI-coded responses. Rest's *P* score identifies the relevant per cent of a subject's thinking that consists of higher-level moral reasoning (Rest, 1979a). The DIT 1 has been extensively validated in accounting and audit environments (Jones et al., 2003) and in auditor judgment research (Solomon & Trotman, 2003). We follow Kohlberg's traditional stage sequence model (see Reed, 2008), rather than Rest's DIT 2 (N score). See Thoma (2002) for an overview and Nucci's (2002) critique of DIT 2. Rest (1979b; 1993) cites Cronbach alpha reliability for the 3-story DIT, typically around the mid to high 70s. In this present study, a reason for using the shorter 3-story version is the time constraints experienced by professional auditors.

Data Collection

The questionnaire sample comprises 174 respondents, consisting of experienced auditors drawn from a cross-section of audit divisions from the five largest professional services' firms located in Copenhagen, Denmark[3]. Care was taken to distribute questionnaires equally among firms. The response rates for the individual accounting firms are 50, 26, 39, 34 and 25, which is approximately in proportion to the relative size of those firms.

The experimental instrument[4] comprised a questionnaire utilising Rest's (1979b) defining issues test scale and organizational values scale (Windsor & Ashkanasy, 1996). Windsor and Ashkanasy (1996) identified a 6-factor structure plus aggressive item in their study of Australian auditors (see Table 1). The 25 items in Table 1 are replicated for our study of auditors in the global professional audit firms in Copenhagen, Denmark.

3 Deloitte, PwC, Arthur Andersen, KPMG, and Ernst&Young.

4 The data were collected in 2001.

Table 1. Corporate value dimensions of Australian audit firms.

Dimension 1. Respect for People	*Dimension 2. Outcome Orientation*
Being fair	Being competitive
Respecting individual rights	Achievement oriented
Being socially responsible	Having high expectations of performance
Being tolerant	Being results orientated
	Being analytical
Dimension 3. People Orientation	*Dimension 4. Action Orientation*
Being people oriented	Action oriented
Being team oriented	Willing to experiment
Working in collaboration with others	Having no or not many rules
	Being quick to take advantage of opportunities
	Being innovative
	Risk taking
Dimension 5. Detail Orientation	*Dimension 6. Stability*
Being careful	Stability
Paying attention to detail	Security of employment
Being precise	
Being rules oriented	
Value Item	
Being aggressive	

The corporate values questionnaire was presented on a single page with values randomly distributed on the page and not listed to suggest a hierarchy of values. The questionnaire was administered in Danish although the original questionnaire was written in English. An independent decoder translated the questionnaire booklet into Danish, and then the booklet was translated back into English by another translator to confirm accuracy. Respondents were then asked to indicate clearly in the boxes beside each of the value items *the extent to which you value* the items. Responses varied from 1 (not at all) to 5 (to a very great extent).

The defining issues test comprised the 3-story version of Rest's (1979b) scale presenting three brief stories that present moral dilemmas in everyday life. Respondents answer questions concerning the importance of various aspects of each of the three stories using 5-point response scales, with 1 representing least importance and 5 the greatest importance. Calculation of auditors' P-scores is based on a formula set out by Rest (1993).

Results

Identifying Corporate Institutional Logics

SPSS Principal Axis Factor Analysis with varimax rotation found three dimensions using scree and eigenvalues > 1 criteria, as shown in Table 2. Our study loaded on nineteen value items, thus refining Windsor and Ashkanasy's (1996) factor structure. Using a factor loading of 0.45 and above, the following six items were deleted: *being innovative, predictable, careful, security of employment, willing to experiment and having no rules*. Nineteen items thus loaded on three distinct dimensional categories, as identified in Table 2.

Table 2. Factor analysis of organizational values into three institutional logics of Danish audit firms

Value Items	Fiduciary-professional logic	Technical – Expertise professional logic	Commercial logic
Being people oriented	.75		
Being socially responsible	.74		
Respecting people's rights	.69		
Being tolerant	.63		
Being fair	.59		
Being team oriented	.50		
Working in collaboration with others	.49		
Being rules oriented		.67	
Paying attention to detail		.64	
Being precise		.56	
Being analytical		.55	
Stability		.55	
Being competitive			.82
Achievement oriented			.76
Being aggressive			.66
Being results oriented			.64
Being quick to take advantage of opportunities			.61
Being action oriented			.59
Having high expectations of performance			.45

The first logic was identified as a professional logic, comprising the following values in order of factor loading size: *being people-oriented, being socially responsible, respecting people's rights, being tolerant, being fair, being team-oriented and working in collaboration with others*. This professional logic refers to the traditional trustee values in auditing and is identified as the fiduciary-professional logic.

A second factor emerged, comprised of *being rules-oriented, paying attention to detail, being precise, being analytical, and stability*. This suggests a dimension associated with the technical aspects of audit, which also is considered part of being professional (Malsch & Gendron, 2013). For a practising public accountant to be considered professional, an auditor should also show professional due care, precision and analytical skills. This is identified as the professional technical-expertise logic. Considerable resources are devoted to audit firm internal professional training to gain and maintain this expertise, including formal interpretive guidance to audit teams to ensure quality (Malsch & Gendron, 2013). Technical expertise also strengthens the legitimacy of the profession, as the profession claims a body of knowledge, which only auditors can apply to complex problems. This provides a high level of discretion and autonomy for audit professionals (Greenwood et al., 1990).

The third dimension loaded with the following values in order of factor loading size: *being competitive* (the highest loading factor), *achievement-oriented, being aggressive, being results-oriented, being quick to take advantage of opportunities, being action-oriented,* and *having high expectations of performance*. This was identified as a commercial logic[5].

Descriptive Statistics

Table 3 presents the descriptive statistics for the continuous and dichotomous variables in our study. Panel A indicates that the mean (median) for the professional-fiduciary logic is 29.24 (29.00), for the professional technical-expertise logic is 17.53 (18.00) and for the commercial logic 23.92 (24.00). The mean (median) for the moral reasoning score is 35.84 (33.33), while the mean (median) for auditing experience is 11.68 (8) with age of participants having a mean (median) of 34.89 (32.00).

Panel B reports the dichotomous variables and we find that the breakup of organizational levels is partner at 19.54 per cent, CPA manager at 16.67 per cent, Supervisor at 49.43 per cent and other at 14.94 per cent. Female auditors represent 29.89 per cent of the sample, while the most frequently held qualification is a Master of Business Economics and Auditing (50 per cent), followed by being a Certified Public Accountant (43.10 per cent) of auditors. The representative percentage of the five firms ranges from 14.37 to 28.70 per cent.

The Pearson correlation results between the variables are presented in Table 4. High correlations are observed amongst the organization levels, experience, age, and education levels. This is expected because more senior staff are expected to be more experienced, older and have a higher level of education. Therefore, we exclude education levels from our regression analysis to reduce multicollinearity. Age and experi-

5 The Cronbach Alpha value for the commercial logic dimension is .83, for the fiduciary-professional logic dimension it is .77 and the technical-professional dimension is .89, indicating acceptable scale reliability.

ence are reported in the models because their exclusion does not qualitatively alter the results. The identities of the five audit firms are also in combination sufficiently correlated to threaten the computational accuracy of our results. Therefore, each audit firm is included in separate regressions and only the model with any accounting firm adding significant influence at p ≤.10 is reported.

Table 3. Professional – fiduciary logic and a professional technical-expertise logic

Panel A: Descriptive Statistics – Continuous Variables n = 174

Variable	Minimum	Maximum	Mean	Median	Std. Dev.
Professional – fiduciary logic	21	35	29.24	29.00	3.42
Professional – technical-expertise logic	9	25	17.53	18.00	2.85
Commercial logic	15.00	32.50	23.92	24. 00	3.85
Moral reasoning score	3.33	70.00	35.84	33.33	15.23
Auditing experience	1.00	42	11.68	8	9.19
Age of participants	21	65	34.89	32	9.21

Panel B: Descriptive Statistics – Dichotomous Variables, n = 174

Variable	Yes %	Number
Partner	19.54	34
CPA	16.67	29
Supervisor	49.43	86
Other	14.94	26
Female	29.89	52
Certified Public Accountant	43.10	75
Master of Business Economics and Auditing	50.00	87
Graduate Diploma	9.20	16
No formal tertiary qualification	9.20	16
Firm A	28.70	50
Firm B	14.94	26
Firm C	22.41	39
Firm D	19.54	34
Firm E	14.37	25

N= 174, where: Fiduciary = respondents' factor score on the organizational culture profile questionnaire identified as fiduciary. Technical-expertise = respondents' factor score on the organizational culture profile questionnaire identified as technical-expertise. Commercial = respondents' factor score on the Organizational Culture profile questionnaire identified as commercial. Moral reasoning = respondents' score on the Defining Issues Test. Partner = 1 if owner/partner, otherwise 0. CPA = 1 if employed certified public accountant, otherwise 0. Supervisor= 1 if supervisory level employee, otherwise 0. Other = 1 if other employee, otherwise 0. Female = 1 if a female, and otherwise 0. Age = age in years of the respondent. Audit experience = number of years of audit experience. Certified Public Accountant = 1 if highest level of education is Certified Public Accountant, and otherwise 0. Master of Business Economics and Auditing = 1 if highest level of education is Master of Business Economics and Auditing, and otherwise 0. Graduate Diploma = 1 if highest level of education is Graduate Diploma, and

otherwise 0. No formal tertiary qualification =1 if no formal tertiary qualification, and otherwise 0. Firm A, B, C, D, E = 1 if a member of the specific firm, otherwise 0.

Univariate tests analysing the differences between the four organizational level for the three logics and moral reasoning score indicate that significant ($p \leq .01$) differences apply to the commercial logic level. A Bonferroni post-hoc test indicates that the difference is between partners and supervisors with partners placing more emphasis on the commercial logic than supervisors.

Table 4. Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Fiduciary (1)																			
Technical (2)	.20**																		
Commercial (3)	.15	.36**																	
Moral reasoning score (4)	.11	-.16*	-.21**																
Experience (5)	.06	-.02	.14	-.09															
Age (6)	.05	-.03	.14	-.05	.94**														
Partner (7)	.04	-.08	.22**	-.07	.65**	.65**													
CPA (8)	-.02	.01	.09	.04	.10	.07	-.22**												
Supervisor (9)	-.04	.02	-.22**	.10	-.28**	-.29**	-.46**	-.44**											
Other (10)	.03	.08	.01	-.10	-41**	-.39**	-.21**	-.19*	-.41**										
Female (11)	.16*	.01	-.36**	.23**	-.13	-.07	-.20**	.05	.11	.01									
CPA Q (12)	.02	-.08	.22**	-.02	.60**	.59**	.63**	.60**	-.74**	-.31**	-.12								
Master Bus (13)	-.10	.05	-.14	.01	-.48**	-.45**	-.46**	-.41**	.54**	.16*	.10	-.69**							
Grad. Dip (14)	.15	.02	-.06	-.01	-.01	-.08	-.11	-.14	.20**	.03	.01	-.24**	-.29**						
Other Q (15)	-.01	.02	-.07	.04	-.16*	-.12	-.16*	-.14	.08	.20**	.01	-.24**	-.29**	-.10					
Firm A (16)	-.01	-.01	-.07	.11	-.10	-.04	-.19*	.09	.08	-.02	.14	-.08	.13	-.07	-.03				
Firm B (17)	-.08	.06	-.03	-.14	-.06	-.14	-.04	-.01	.01	.05	-.03	-.04	-.03	.03	.09	-.27**			
Firm C (18)	.12	.-.02	.05	-.11	.19*	.15	.19*	-.09	.08	-.19*	-.17*	.06	-.19*	.16*	.07	-.34**	-.23**		
Firm D (19)	.05	.01	.11	.02	-.22**	-.13	-.10	-.03	-.08	.24**	-.01	-.09	.13	-.06	-.01	-.31**	-.21**	-.27**	
Firm E (20)	-.10	-.04	-.07	.11	.21**	.16*	.17*	.04	-.11	-.08	.06	.17*	-.05	-.07	-.13	-.26**	-.17*	-.22**	-.20**

** = significant at p=.01, * significant at p =.05, two tailed tests.

N= 174, where: Fiduciary = respondents' factor score on the organizational culture profile questionnaire identified as fiduciary. Technical-expertise = respondents' factor score on the organizational culture profile questionnaire identified as technical-expertise. Commercial = respondents' factor score on the Organizational Culture profile questionnaire identified as commercial. Moral reasoning = respondents' score on the Defining

Issues Test. Partner = 1 if owner/partner, otherwise 0. CPA = 1 if employed certified public accountant, otherwise 0. Supervisor= 1 if supervisory level employee, otherwise 0. Other = 1 if other employee, otherwise 0. Female = 1 if a female, and otherwise 0. Age = age in years of the respondent. Audit experience = number of years of audit experience. Certified Public Accountant = 1 if highest level of education is Certified Public Accountant, and otherwise 0. Master of Business Economics and Auditing = 1 if highest level of education is Master of Business Economics and Auditing, and otherwise 0. Graduate Diploma = 1 if highest level of education is Graduate Diploma, and otherwise 0. No formal tertiary qualification =1 if no formal tertiary qualification, and otherwise 0. Firm A, B, C, D, E = 1 if a member of the specific firm, otherwise 0.

Table 5. Anovas for Professional fiduciary, Professional technical-expertise, Commercial logics and Moral Reasoning score

	Partner, N = 34		CPA manager, N= 29		Supervisor, N = 86		Other, N = 26		
Variable	**Mean**	**Median**	**Mean**	**Median**	**Mean**	**Median**	**Mean**	**Median**	**F**
Professional fiduciary	29.75	30.00	29.11	30.00	29.11	29.00	29.48	29.00	.91
Professional technical-expertise	17.06	17.00	17.71	18.00	17.61	18.00	18.16	18.00	.56
Commercial	25.37	26.00	24.68	25.00	23.04	23.00	24.04	23.00	4.75***
Moral reasoning score	33.75	28.33	37.62	36.67	37.14	36.67	31.73	33.33	1.14

Bonferroni post hoc test indicates that the difference at p =.01 is between partner and supervisors with partners placing more emphasis on the commercial logic than supervisors.
N= 174, where: Fiduciary = respondents' factor score on the organizational culture profile questionnaire identified as fiduciary. Technical-expertise = respondents' factor score on the organizational culture profile questionnaire identified as technical-expertise. Commercial = respondents' factor score on the organizational culture profile questionnaire identified as commercial. Moral reasoning = respondents' score on the Defining Issues Test. Partner = 1 if owner/partner, otherwise 0. CPA manager= 1 if employed certified public accountant, otherwise 0. Supervisor= 1 if supervisory level employee, otherwise 0. Other = 1 if other employee, otherwise 0.

Regression Results

Ordinary least square regression results with the dependent variables being professional fiduciary, professional technical-expertise and commercial logics are reported in table 6. None of the four organizational levels explains the professional fiduciary logic in model 1. The three variables that are significant in explaining higher fiduciary professional logics are moral reasoning score (β =.03, p ≤.10), being a female auditor (β = 1.37, p ≤.01) and partner firm identity C (β = 1.28, p ≤.05). CPA manager (β = 3.81, p ≤.10), Supervisor (β = 3.97, p ≤.10) and other (β = 4.44, p ≤.01) explain a higher professional technical-expertise logic in model 2. In addition, lower moral reasoning (β = -.03, p ≤.05) is associated with a higher professional technical-expertise logic.

Model 3 reports the commercial logic as the dependent variable with partner (β = 9.18, p ≤.01), CPA manager (β = 8.88, p ≤.01), Supervisor (β = 7.00, p ≤.05) and other (β = 7.50, p ≤.05) being associated with higher scores for the commercial logic. Lower moral reasoning (β = -.04, p ≤.05) and being a male auditor are also associated (female: β = -265, p ≤.01) with the commercial logic.

These findings partially support hypothesis one and fully support hypothesis two. Auditors at all four organizational levels identify with the professional fiduciary logic, but the levels do not have significant power in explaining this logic. Three of the four levels explain the professional technical-expertise logic, while all levels explain the commercial logic. The univariate tests combined with the regression analyses indicate that audit firm members at the four levels have reasonably homogeneous values for the fiduciary professional and professional technical-expertise logics, but not for the commercial logic. Audit partners place more emphasis on the commercial logic than supervisors suggesting that competitive, entrepreneurial, market-oriented auditors with a profitability focus reach partner level (Kornberger et al., 2011; Knechel et al., 2013).

Table 6. OLS regression Dependent Variable – Fiduciary logic, Technical and Commercial Logics

		Professional fiduciary logic Model 1			Professional technical-expertise logic Model 2			Commercial logic Model 3		
Variable		**Coeff.**	**t statistic**	**p**	**Coeff.**	**t statistic**	**p**	**Coeff.**	**t statistic**	**p**
Constant	Predicted sign	28.35	6.79***	.00	14.32	4.06***	.00	16.56	3.86***	.00
Partner	+,+,+	-.01	-.01	.99	2.90	.98	.33	9.18	2.55***	.01
CPA manager	+,+,+	-.26	-.07	.94	3.81	1.27*	.20	8.88	2.43***	.02
Supervisor	+,+,+	-.19	-.05	.96	3.97	1.36*	.18	7.00	1.96**	.05
Other	?,+,?	.91	.26	.80	4.44	1.48*	.14	7.50	2.05**	.04
Moral reasoning Score	+, +, -	.03	1.41*	.16	-.03	-1.95**	.05	-.04	-1.93**	.06
Female	+, +, -	1.37	2.28***	.02	.16	.32	.75	-2.65	-4.31***	.00
Audit experience	?,?,?	.08	.98	.33	.02	.32	.75	-.11	-1.21	.23
Age	+, +,?	-.05	-.59	.56	.01	.06	.95	.08	.98	.33
Accounting Firm C	?,?,?	1.28	1.95**	.05	-.17	-.31	.76	-.43	-.63	.53
F		1.36			.94			5.20		
R^2		.07			.05			.22		
Adjusted R^2		.02			.00			.18		
Model p		.21			.49			.00		

Two tail tests unless a direction is predicted.
N= 174, where: Fiduciary = respondents' factor score on the organizational culture profile questionnaire identified as fiduciary. Technical-expertise = respondents' factor score on the organizational culture profile questionnaire identified as technical-expertise. Commercial = respondents' factor score on the organizational culture profile questionnaire identified as commercial. Moral reasoning = respondents' score on the Defining Issues Test.Partner = 1 if owner/partner, otherwise 0. CPA manager = 1 if employed certified public accountant, otherwise 0. Supervisor= 1 if supervisory level employee, otherwise 0. Other = 1 if other employee, otherwise 0. Female = 1 if a female, and otherwise 0. Age = age in years of the respondent. Audit experience = number of years of audit experience. Firm A, B, C, D, E = 1 if a member of the specific firm, otherwise 0.

Table 7 reports the results of the regression with moral reasoning as the dependent variable that partially supports hypothesis three. We find that higher professional fiduciary (β =.72, p ≤.05) and lower professional technical-expertise (β = -.82, p ≤.10) and commercial (β = -.52, p ≤.10) logics are significantly associated with moral reasoning. However, none of the organizational levels explains moral reasoning. In addition, increased audit experience is significantly associated with lower moral reasoning (β = -.66, p ≤.10).

Table 7. OLS regression Dependent Variable Moral Reasoning Score

Variable	Predicted direction	Coefficient.	t statistic	p value
Constant		31.32	1.52	.13
Partner	+	6.68	.44	.66
CPA manager	+	6.65	.43	.67
Supervisor	+	4.16	.28	.78
Other	?	-3.40	-.22	.83
Professional fiduciary logic	+	.72	2.08**	.04
Professional technical-expertise logic	?	-.82	-1.85*	.07
Commercial logic	-	-.52	-1.44*	.15
Female	+	3.33	1.19	.24
Audit experience	?	-.66	-1.82*	.07
Age	+	.40	1.12	.27
Accounting Firm C*	?	-4.60	-1.62	.11
F		2.60		
R^2		.15		
Adjusted R^2		.10		
Model p		.01		

Two tail tests unless a direction is predicted.
*Firm E positively significant at p=.08 with a coefficient of 5.92 and t = 1.76
Moral reasoning = respondents' score on the Defining Issues Test. Partner = 1 if owner/partner, otherwise 0. CPA manage r = 1 if employed certified public accountant, otherwise 0. Supervisor= 1 if supervisory level employee, otherwise 0. Other = 1 if other employee, otherwise 0. Fiduciary = respondents' factor score on the organizational culture profile questionnaire identified as fiduciary. Technical-expertise = respondents' factor score on the organizational culture profile questionnaire identified as technical-expertise. Commercial = respondents' factor score on the organizational culture profile questionnaire identified as commercial. Female = 1 if a female, and otherwise 0. Age = age in years of the respondent. Audit experience = number of years of audit experience. Firm A, B, C, D, E = 1 if a member of the specific firm, otherwise 0.

Conclusion

Trice and Beyer (1991) maintain that leadership must successfully reconcile multiple corporate logics with divergent values. The core organizational problem for leadership in dealing with existing diverse logics is to maintain diversity but reconcile differences. IFAC (2018) provides examples of firm-wide safeguards for working auditors, which includes "leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest" (IFAC, 2018, sec. 300.7.A5). A factor analysis revealed a professional fiduciary and a professional technical-expertise logic for our respondents, but only the professional technical-expertise was explained by different organizational levels in the audit firm.

The commercial logic also exists for our auditors and is associated with auditors that focus on commercial values, competitiveness and achieving individual success through entrepreneurial activities. This logic is explained by all organizational levels with partners placing more emphasis on this logic than supervisors.

Strong professional logics and its related ethical values, including independence, are central to the quality of financial reporting, while strong commercial logics exacerbate the innate conflict between the cost of an audit and its quality, potentially resulting in quality threatening behaviours and underreporting of time (Sweeney et al., 2010). Alternatively, quality does cost time, and auditors also have to perform the audit at minimal cost (both for commercial reasons, but also for professional reasons, in that clients should not have to pay more than necessary, as also stated in § 16 of the Danish Auditor Act). Finding three logics indicates there are different counterbalancing logics present in Danish audit firms.

A multiple regression tested whether a relationship exists between auditors' moral reasoning and the three audit firm logics. Auditors' moral reasoning underlies a predisposition to provide fair judgments, which is a professional requirement linked to integrity. We find auditors' moral reasoning to be positively related to the traditional concept of a professional fiduciary that emphasises social responsibility and concern for the public welfare characterised, but negatively associated with the professional technical-expertise logic.

We find auditors' moral reasoning to be negatively related to the audit firm logic aligned with the entrepreneurial commercial logic and the *being competitive* value loaded the most strongly. This finding suggests the values of the commercial logic are partly inconsistent with the fundamental principles of the profession of being fair, honest, having integrity and emphasising the public interest.

Ethical decisions are a function of individuals' values and organizational factors, such as firm culture, including tone *at the top* (Douglas et al., 2001). The key difference that we found is partners value the commercial logic more than subordinate auditors in our sample. This reflects the different roles that employees have in

the four organizational levels and it is important for different logics to co-exist in audit firms. A combination of logics is a positive outcome for Danish audit firms and a stronger focus on the commercial logic by partners allows for balance and management of values within the firms.

However, as Gendron (2001, 2002) has shown, even though logics co-exist, one logic tends to dominate the others. Socialization theory proposes that individuals over time adapt their values to the dominant values in the organization and that promotion partially depends on individual fit with the organizational culture (Douglas et al., 2001). Particularly for those stakeholders who value professional logics, it is encouraging to see that Supervisors value the commercial logic least. However, it is inevitable that CPA Managers and Partner/Owners value the commercial logic. Other audit employees might need to adapt to management's values for promotion.

We provide quantitative evidence that partners/owners embody the commercial logic more than other supervisors in contrast to Spence and Carter (2014) that only imply that different logics predominate at different levels within Big 4 firms. A focus on a commercial logic seems to be essential in stratifying and establishing hierarchy, as those who embody stronger commercial logics rise to the top as partners and owners. This is logical and probably necessary because partners focus on selling and running the company, while the actual technical audit work is completed by lower-level employees. An essential element of a profession is the focus on professional ethics (including independence) and the public interest. Therefore, a dominance of the commercial logic could compromise these ideals.

The auditing profession proclaims fundamental ideals of a profession, such as ethical conduct and the public interest. However, many professional auditors are employees of large privately-owned audit firms, whose objectives are moderated by the business of profits and economic survival in the market for accounting services (Zeff, 2003). It seems imperative for audit firms to retain a good balance of logics, and not let the commercial logic dominate at the cost of the professional logic. In addition, law and standard setters should be aware of this tension and regulate accordingly.

A limitation of this study is that it is based on a sample of auditors in one location. Care should therefore be exercised in generalizing the results to other locations and employment situations. In addition, this study is based on a survey measure of corporate logics, which may not provide an adequate representation of the actual dimensions of institutional logics in audit firms. However, the OCP scale has been well validated (Windsor & Ashkanasy, 1996; Sarros et al., 2005), reducing the influence of this limitation. Future studies should examine auditor corporate institutional logics and moral reasoning in other countries with alternative frameworks.

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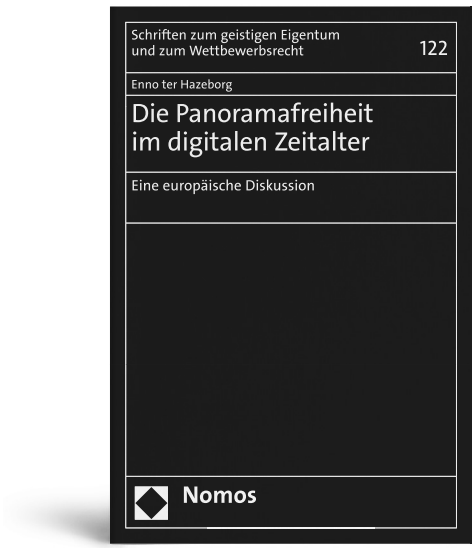
Freedom of Panorama in the Digital Age



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