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A Theoretical Framework of the Relationship between Public Accounting Firms and Their Auditors

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ABSTRACT: The behavior of auditors in the context of their employment by public accounting firms has received significant attention in the accounting literature. The current article extends this literature by providing a framework that identifies what auditing professionals contribute and receive as a result of their work efforts, as well as related influences. Using agency theory modified with fundamental ideas from the sociology of professions literature, we develop a model of the auditor-public accounting firm employment relationship. This framework is grounded in a timely, contextually rich description of the public accounting work environment, and the pressures and incentives faced by auditors. Propositions for future research are suggested that arise from understanding the auditor-firm relationship.

INTRODUCTION

The behavior of auditors in the context of their employment by public accounting firms has received significant attention in the accounting literature. For example, researchers have examined such diverse topics as socialization (e.g., Covaleski et al. 1998; Dirsmith and Covaleski 1985), turnover (e.g., Dalton et al. 1997; Fogarty and Uliss 2000; Stocks and Hardin 2001), expertise (Tan and Libby 1997; Libby and Frederick 1990), and audit quality reduction acts (Margheim and Pany 1986; Kelley and Margheim 1987). The purpose of this prior work has been to explain and possibly predict auditor behavior within the context of the work function. Useful insights have been gained by these streams of research, though none has developed an overall model of the auditor-firm employment relationship.

The purpose of our paper is to provide a framework for research to identify what auditing professionals contribute and receive as a result of their work efforts, as well as influences on those work efforts.[1] Thus, the framework is presented as an equation balancing the value received by the firm with the value received by the individual auditor. We integrate fundamental ideas from the sociology

[1] The current study focuses on a framework that is relevant to auditors employed by public accounting firms. A primary distinguishing feature of auditors is their responsibility to the general public as opposed to clients. In part because of this, auditors have been the primary focus of prior research on topics related to the employment of CPAs. This framework however may be applicable to CPAs working in a tax or consulting capacity if sufficient consideration is given to the specific work function and work environment.

of professions literature within an agency theory framework to develop a new model of the employment relationship between auditors and public accounting firms. The framework draws upon a wide variety of research on public accounting firms and their auditors, along with the cultures, commitments, relationships among them, and resulting behaviors. This framework is grounded in the variables that make up the contextually rich public accounting work environment. Flowing from this framework is a series of research propositions intended to guide future research.

The framework yields several important contributions. First, the model addresses prior research on auditors and their firms in the broader context of their employment relationship. An integrated view of this research is important because of the complexity of human behavior. Research performed in isolated streams, with limited consideration of potential variables might be viewed as a sort of unintended reductionism. Second, our framework articulates the employment contract model focusing on a fairly complete set of relevant variables. If research is exploring and testing only specific influences on behavior, then it is important to be aware of those variables that, by omission, are assumed to be unimportant and remain constant. While articulating this framework, we also provide a contextually rich description of the public accounting work environment, and the pressures and incentives faced by auditors. This is especially salient in light of new regulation of auditors under the Sarbanes-Oxley Act and the implication it has for restrictions on firms and their auditors. Finally, the framework brings to light important research propositions regarding firm and auditor employee behavior that have been previously unexplored.

The remainder of this article is organized as follows. We begin with a discussion of agency theory and the employment relationship. The sociology of professions literature is then discussed to demonstrate relaxation of agency theory assumptions to accommodate professionals. Next, we draw upon prior research to identify the distinctive characteristics of the public accounting firm environment and the role of the audit professional. Integrating these lines of literature, we propose a framework of the auditor-CPA firm employment relationship. Following from this model, we suggest numerous research propositions related to each model element and relevant existing streams of research. Finally, we discuss the boundary conditions of our theoretical framework, acknowledging its limitations, and provide concluding thoughts.

FOUNDATION FOR EXAMINING EMPLOYER-EMPLOYEE RELATIONSHIP

Agency Theory Model of Employment Relationship

Agency theory proposes that the relationship between an employer (principal) and an employee (agent) is represented by an employment contract (Eisenhardt 1989). Agency theory presents a simplified view of the relationship where parties to the contract are assumed to be self-interested (Eisenhardt 1989; Baiman 1990; Jensen and Meckling 1976). The employment contract reflects an exchange in which the value of services received by the principal is equal to the compensation received by the agent. Either party has the ability to exit the contract (though perhaps incurring exit costs) as a result of perceived imbalance or unfairness.

Viewed through the lens of agency theory, the CPA firm-employer receives the value of the CPA-employee provided professional contribution (work) adjusted for labor market effects. The extent of professional contribution is affected by the agent's effort, expertise, shirking, and states of nature (environmental factors) beyond the agent's control (Gist and Davidson 1999; Libby and Lipe 1992; Bédard 1991). Shirking[2] is related to self-interest, risk-preferences, bounded rationality,[3]

[2] A working definition of shirking can be obtained from http://www.professorbainbridge.com/2004/03/what_are_agency.html. "Shirking is conventionally defined to include as any action by a member of a production team that diverges from the interests of the team as a whole. As such, shirking includes not only culpable cheating, but also negligence, oversight, incapacity, and even honest mistakes. In other words, shirking is simply the inevitable consequence of bounded rationality and opportunism within agency relationships."

[3] "Bounded rationality" assumes that individuals are limited in their ability to attend to all possible decision factors, thus decisions are made without consideration of complete knowledge (Simon 1955).

information asymmetry (Margheim and Pany 1986; Lightner et al. 1982), perceived pressures (Raghunathan 1991), and ethical preferences (Noreen 1988). Regardless of the value of the agent's professional contribution, the employer will pay the labor-supply market price for the agent's services. If there is a perceived imbalance between the market price and the value of services received, then the employer can exit the contract.

The compensation package received by the employee is composed of salary and traditional benefits, factors that increase the agent's economic wealth. Salary is a function of experience, expertise, and labor market pressures. Traditional benefits can be quantified in monetary terms and include vacation and sick leave, insurance, and pension benefits.

Need for Broader Employment Relationship Model

In recent years researchers in various disciplines have identified limitations of classical agency theory and suggested that agency theory would be more useful if expanded to include a wider variety of principals, agents, and situations that reflect complex business organizations. Indjejikian (1999, 152) notes that "descriptive and anecdotal examples of real-world practices coupled with the low explanatory power of most empirical studies has led critics to claim that most employer-employee relationships and firms' compensation practices are far more complicated than standard principal-agency theory allows." Eisenhardt (1989, 71) argues that, "The richness and complexity of agency theory would be enhanced if researchers would consider a broader spectrum of possible contracts." She specifically discusses the potential role of an expanded agency theory where performance evaluation is recognized to be difficult due to such factors as individuals working in teams, unstructured tasks, behaviors that are difficult to measure, and goal conflict between professionals and managers. These comments highlight the incremental value of agency theory as a model through which one can view the world, and in particular, the world of auditors and their employing firm.[3]

Relevant to our paper, Sharma (1997) responded to calls to expand the application of agency theory to a broader spectrum of contracts by examining the employment relationship between lay principals and professionals acting in a consulting capacity. While lay principal-professional exchanges include relationships between clients and their accountants, lawyers, architects, or physicians, similarities can be drawn to the relationship between CPAs and their employing firms. Sharma (1997) argues that professionals have unique characteristics that affect their relationships with other parties. In the following section, we summarize sociology of the professions literature relevant to modifying agency assumptions when the agent is a professional and the principal is a professional services firm.

Sociology of the Professions and Modifications to Agency Theory Assumptions

There are many definitions of a professional or a professional job. The sociology of professions literature addresses the characteristics of occupations and the process an occupation undergoes in establishing itself as a profession (Freidson 1986; Larson 1977; Abbott 1988; Millerson 1964). The characteristics typically include controlling a defined body of knowledge and expertise, requiring advanced education, and possessing various methods of informal and formal control over individuals working within the occupation. Accounting, architecture, engineering, medicine, and law all meet these requirements and are considered to be professions.

Considering professionals and their employment contracts requires certain modifications to agency theory. Agency theory states that individuals are wealth maximizers (Jensen and Meckling 1976). Most agency models of compensation include only pecuniary benefits (see, for example, the work of Jensen and Murphy [1990]). A fundamental change in assumptions as we move from an economic-based agency theory is the conclusion that individuals have more than one utility and that

[3] In this spirit of going beyond economic applications, agency theory has been extended to examine behavioral issues in accounting such as the role of ethics in employment contracts (Noreen 1988; Rutledge and Karim 1999) and self-interested capital expenditure decisions by employees (Harrell and Harrison 1994; Harrison and Harrell 1993).

utility may be derived through noneconomic factors or rewards (Etzioni 1988).[5] In particular when dealing with professionals, there is a large body of literature that supports the notion that noneconomic rewards will affect behavior.[6] Specifically, serving the public good, partaking in the prestige of the profession and control over work environment have been shown to affect the behavior of professionals (Larson 1977).

Professions distinguish themselves in part by espousing a commitment to serve the public good through their work (Larson 1977). As professionals, individuals are expected to approach their work with some degree of altruism. It can be argued that acting altruistically provides noneconomic value to the individual. For example, if an individual accrues noneconomic utility from adhering to an ethical code, behaving consistent with that code but in a noneconomically maximizing manner can be understood under the assumption of self-interested motivation (Mueller 1989).[7] Thus, the agency theory assumption that the professional agent will act exclusively to further economic self-interest may not always hold.

There is also a potential prestige-based reward to be gained from membership in a profession (Saks 1983). Professionals "are prone to believe that their work is valuable" (Freidson 1973, 170) and garner respect from colleagues or society by being a part of a profession (Larson 1977). The assertion that respect from others has value is supported by social exchange theory, which suggests that interpersonal rewards such as respect from one's colleagues may provide utility (Blau 1964; Guest and Conway 2002).

Regarding the work process, professionals are assumed to exercise some degree of control. In order to control their work product they must retain the ability to organize and schedule activities, responsibilities that are typically held by management in other occupations. "While the working hours … are restricted and controlled by the terms of employment … the critical variables are the number and type of tasks performed in a working day, the number and type of cases to be handled, and the supportive resources to be made available to aid performance …" (Freidson 1973, 169). Influence and control over these variables is important to professionals and may be a part of what they expect in return for performing the work.[8] "Professionals have notions, formed in part by their training, of how work should be performed and of what work is interesting and worthy of their training" (Freidson 1973, 170).

Despite the personal control typically enjoyed by professionals on a day-to-day basis, the profession's social structure exerts influence and control. Specifically, the profession of which one is a member is discussed as a very powerful force in the sociology of professions literature (Covaleski et al. 1998; Fogarty 1992). As a professional, the agent is subject to monitoring beyond the employment contract, due to his or her professional membership. While "the profession" may not directly supervise the individual professional, his or her work occurs within a larger socioeconomic context in which there is oversight by a community of peers. This oversight can take the form of a code of ethics, licensure and continuing education requirements, professional standards, and disciplinary

[5] Noneconomic utilities derived from being an auditor might be such things as the prestige from being a member of a profession or satisfying personal values of being able to support one's family.

[6] Classical agency theory also ignores that individuals may differ in valuing money. Mitchell and Mickel (1999) argue that since individuals attach different meanings to money, behavior cannot be predicted by a simple assumption that more money is better. Money correlates positively with life satisfaction, but once a certain level of wealth is achieved, the marginal impact of additional money is diminished.

[7] Alternatively, the sociology of the professions literature argues when professionals appear to be acting based upon ethics or altruism, they may really be motivated by a desire to protect their professional franchise (Larson 1977). Hooks (1991), for example, argues the accounting professions' actions benefiting society also maintain market control and manage social conflict. According to this perspective, professionals act in society's interest because they are awarded elevated status, such as the license to perform special duties, by protecting the public interest.

[8] The extent to which this control exists is likely a function of hierarchical level or experience. For example, it would be reasonable that a medical resident has less ability to organize activities than a full-fledged doctor.

remedies.[9] As a result, there is a monitoring system in place via the peer community that differs from the contractual and information-based monitoring systems of agency theory.[10] Rather than adhering to the traditional economic choices of a rational decision maker, having a shared identity and commitment to values influences individuals to make decisions that are consistent with the beliefs of the social structures of which they are members (Etzioni 1988).

Finally, under traditional agency theory, because the principal is typically assumed not to be actively involved in task oversight, contracts are used as a control mechanism. In contrast, in a professional services firm/professional employee relationship, the principal is an owner-manager who is directly involved in creating the work product. Professionals employed in professional service firms are supervised and their work reviewed by professionals who have moved into ownership roles (Malos and Campion 1995). As a result, there is a co-production of the product. This is best illustrated in the case of a doctor and patient working together to determine the optimal treatment plan (Sharma 1997). This co-production creates a unique relationship between the two parties, and is argued to have a bonding effect, motivating the professional agent to work harder for the benefit of the principal. This bonding relationship has also been referred to as social capital in the management literature (Leana and Van Buren 1999).

In summary, the sociology of professions literature supports the proposition that professionals are subject to additional motivations, monitoring, and controls beyond those portrayed by classical agency theory. The inclusion of these additional variables has the potential to increase the explanatory power of classical agency theory when attempting to understand actions and motivations of professionals within the scope of their employment contracts. Exactly how the modifications are operationalized is conditioned upon the characteristics of each profession and professional environment. The following section details the distinctive aspects of auditors employed by public accounting firms.

Distinctive Aspects of Auditors and Public Accounting

Auditors and public accounting firms are distinctive, even among professionals and professional service firms. These distinctions include responsibility to third parties, work in hierarchical teams, composition of team changes, development of skills under special circumstances, and control through organizational culture.[11] In the following section we discuss each of these characteristics of the professional accountant and accounting profession. Most of these characteristics are shared by one or more professions, but we conclude that no other profession possesses the same specific mix of characteristics.

Central to what makes auditors distinctive is to whom they are responsible. In contrast to other professionals like attorneys or physicians, CPAs have a responsibility to third parties including the general public, rather than to just their clients or patients. Russell Horowitz (2002), an SEC policy advisor, stated, "the accounting profession is the only profession, private profession, with public responsibility." In part, this public responsibility stems from the fact that the work of auditors is intended to serve a large number of third parties in their decision-making processes. Further, in doing

[9] It could be argued that potential legal liability and loss of professional license are also forms of oversight.

[10] Under multiperiod agency theory, agents have an incentive to create a positive reputation (Dobson 1993). In the case of CPAs, reputation building at the individual level would be among peers and is thus related to the concept of an oversight by a community of peers advanced by the sociology of the professions literature.

[11] This list is not intended to be exhaustive, but includes the aspects that make auditors distinctive among professionals within the context of understanding the relationship with their employing firms. This approach is similar to Fogarty and Uliss (2000) who identified five attributes of public accounting firms that differ from other employment modes: production of a unique product, customization of process, changing work teams, environment of high turnover, and early opportunities for supervision.

audits, the auditor, the "client" with whom the auditor has day-to-day interactions (i.e., company management), and other third parties do not necessarily have allied objectives and motivations. Auditors must contend with pressure from client management, boards of directors, regulators, and third parties. Performing an audit in this environment requires consideration of all these constituents (Johnstone et al. 2001).

Auditors work in hierarchical teams (Owhoso et al. 2002). While some other professionals such as attorneys may also work in teams, several audit work team features make them different. Professional standards require auditors at each level to be properly supervised and their work reviewed (AICPA 1999, AU§311.01). This has been operationalized in public accounting by *successive* levels of supervision (i.e., senior, manager, then partner).[12]

Composition of work teams also changes from engagement to engagement (Fogarty and Uliss 2000). This fosters dissemination of organizational knowledge, norms, values, and building of social networks. Using teams in this way also serves as a form of control due to individual accountability to many team members over time. However, fluid work teams also have the potential to hamper trust and deeper relationships among team members (Larsen 2003). Changing work teams can reduce the continuing proximity of and interactions between supervisors and subordinates, which under certain circumstances can affect performance appraisals (Duarte et al. 1994) and has been found to negatively impact commitment (Becker et al. 1996). Related to the frequently changing and hierarchical structure of teams, auditors are also given early opportunities to supervise and manage (Fogarty and Uliss 2000).

Auditors are afforded extensive access to proprietary, strategic, product, and financial client information. Since auditors have multiple clients, they gain intimate and broad knowledge of numerous businesses. This allows auditors to build general business expertise that goes beyond auditing skills. Obtaining a broad skill set is necessary for auditors because auditing has multiple dimensions. Auditors must be technically proficient, possess managerial and administrative skills, and bring additional business into a firm (i.e., practice development).

These various aspects of the auditors' work take place within the firm environment subject to the acculturation process encompassing firm-specific technical training and organizational norms. It has been argued that control is the primary purpose of this socialization process (Dirsmith and Covaleski 1985). Undesired actions of an individual auditor can have detrimental consequences for the firm (e.g., partners not involved in Enron were affected by the actions of the Andersen partners on the Enron engagement). Thus, this socialization-driven control can be as superficial as defining appropriate dress and demeanor (Grey 1998), or as fundamental as communicating ethical norms and technical practices to protect audit quality.

A final unusual aspect of the CPA's job is that there is actually incentive to underreport time worked. This is a function of the fixed-fee pricing on many audits and the performance evaluation and monitoring system in which CPAs are typically not paid overtime, and are evaluated, in part, on their ability to complete work within the budgeted time (Lightner et al. 1986; Kelley and Margheim 1990; Ponemon 1992). Auditors work more than they report in order meet time budgets or to get more favorable performance evaluations relative to their peers but ultimately may reduce audit quality by affecting management's ability to assess the performance of employees, set realistic budgets, and correctly price audits.

[12] This may result in conflicting feedback and performance appraisal, since multiple evaluators are involved and performance ratings are biased by numerous rater characteristics (Lefkowitz 2000). Given the significant role of appraisals in a professional's career, this inconsistency may also have negative motivational consequences since feedback is an important source of potential motivation and job satisfaction (Hackman and Oldham 1980).

THEORETICAL FRAMEWORK FOR THE AUDITOR-FIRM EMPLOYMENT RELATIONSHIP

We turn now to a discussion of our framework for the auditor-firm employment relationship (see Figure 1). As previously discussed, the basis for this framework is agency theory modified for professionals. In the following section, we embed this framework in the distinctive aspects of auditing and public accounting described above, and refine the framework to accommodate the complex and rich set of variables that can be leveraged as a part of the compensation package provided to public accounting firm professionals. While some variables are common to all professionals and employment relationships, relatively greater attention is devoted to those that are distinctive to auditors and their employing public accounting firms.

Value Received by the Firm

Variables that are a part of what the public accounting firm employer must consider in the employment contract are discussed in this section, and are shown on the left side of the model. They include value of professional contributions, and transitions and labor-market effects.

Professional Contribution

As mentioned earlier in the context of agency theory, the professional contribution component of the model describes employee activities associated with accomplishing the functions desired by the employer. An auditor's job is multidimensional and includes many tasks such as technical work performed for the client, engagement management, subordinate development, administrative and recruiting activities, training, quality control, and practice development (Hooks and Higgs 2002; Hooks et al. 1994). The auditor must perform these tasks while balancing potentially divergent pressures to meet the expectations of clients, employers, the profession, and public, as well as threats of litigation (DeZoort and Lord 1997; Gibbins and Newton 1994). Thus, the variable labeled "value of professional contribution" in the model captures a variety of auditor tasks for the employing firm. The *value* received by the firm for the professional contribution is a variable that can be measured in economic terms, and is expected to be affected by a number of factors.[13]

Factors Influencing Professional Contribution

In the context of agency theory, the work accomplished by the agent is impacted by individual and organizational factors. Effort by the agent and degree of expertise capture how hard the agent is willing to work to make a contribution, and the level of contribution the agent's expertise permits. A firm's expectations of an individual's work product and completion of work within a team can also influence professional contribution. These have the potential to be limited by shirking and states of nature.

Auditors are directly or indirectly accountable to multiple constituencies including immediate superiors, firm management, client management, boards of directors and shareholders, and the accounting profession. Each of these constituencies is likely to have differing goals and views, which may, depending on the awareness, source, and direction, affect auditor effort. According to accountability theory (Tetlock 1992), decision makers engage in more complex thinking when accountable to multiple individuals with differing views. This was borne out in an audit setting by Gibbins and Newton (1994) who demonstrate greater cognitive effort or more complex strategies by auditors who were pressured to comply with positions conflicting with their own, or when the positions of others were unclear. This research suggests that since auditors are generally accountable to multiple sources with conflicting objectives (Johnstone et al. 2001), accountability may impact the auditor's professional contribution in a variety of ways depending on the pressures from the various constituencies.

[13] This may be somewhat complicated by the issues of precisely determining the individual's work product since some work is completed as part of a team. However, firms do assess individual contribution as measured by performance evaluations and performance-based compensation.

FIGURE 1
Theoretical Framework of the Relationship between Public Accounting Firms and Their Auditors

Value Received by the Firm = **Value Received by the Auditor** **(1)**

Value of Professional Contributions $\pm$ Value of Transition $\pm$ Labor Supply Market Effects = Salary + Benefits + Development $\pm$ Flexibility + Deferred Compensation + Satisfaction of Personal Preferences (2)

where:

Professional Contributions = f (effort by the agent, degree of expertise, shirking, states of nature)

Effort by the agent = f (accountability, team environment, review)

Degree of expertise = f (training, experience, ability)

Shirking = f (self-interest, risk preferences, bounded rationality, information asymmetry, organizational and professional commitment, and professional control influences including altruism, and ethics)

States of nature = f (technical and administrative audit issues)

where:

Salary = Annual Guaranteed Monetary Compensation for Job

Salary = f (experience, expertise, market pressures)

Benefits = Value of Benefits Package

Benefits = f (firm philosophy, market pressures)

Development = Technical and Behavioral Development

Technical and Behavioral Development = f (formal programs, on-the-job training, interpersonal network)

Flexibility = Work Location and Time of Day Work Completed

Flexibility = f (personal circumstances, firm policy and attitude)

Deferred Compensation = Present Value of Compensation if Employee if she/he Expect Higher Paying Future Job

Deferred Compensation = f (belief will become a partner, intent to change jobs)

Satisfaction of Personal Preferences = Level of Work Effort, Stress Level, Social Interaction

Satisfaction of Personal Preferences = f (ethics, value, accountability, perceptions of fairness, self-interest and altruism)

The hierarchically structured team environment may also impact the effort exerted and work quality provided by auditors. Koonce et al. (1995) found that auditors anticipating the review process provided more extensive justifications for decisions than auditors not anticipating reviews. The review process and group discussion have also been found to increase the number of plausible hypotheses or explanations generated by audit managers and seniors (Ismail and Trotman 1995). More recently, work by Owhoso et al. (2002) found that when working within a familiar industry, hierarchical teams are more effective at error detection because the team is comprised of personnel with different necessary skills.

Level of expertise possessed by the auditor and its effect on professional contribution have also been examined in prior research. Development of expertise is affected by task-specific training, experience, and innate ability (Bonner and Lewis 1990; Bonner and Walker 1994). Cognitive accounting research has found that certain aspects of expertise can lead to better developed knowledge structures (Bonner et al. 1996; Tubbs 1992) and are related to higher levels of performance on some audit tasks (Bonner 1990; Libby and Tan 1994). Thus, to the extent that expertise improves audit efficiency and effectiveness, professional contribution is affected by expertise.

The professional contribution received by the firm will however, be tempered by shirking. As specified in the model, shirking is affected by an agent's perception of what is in his or her self-interest, risk preferences, the agent's ability to understand information and use it (bounded rationality), actions that can be undertaken without penalty because the principal has different information (information asymmetry), and other governing factors such as commitment, altruism, and ethics. In an audit setting, shirking can include such wide-ranging activities as social loafing,[14] failure to fully engage in more complex thinking, and audit-quality reduction acts such as premature signoff of an audit step (Kaplan 1995) and underreporting time.[15] Since agency theory assumes that agents are self-interested and effort-averse, shirking is expected unless behavior is constrained. The extent to which auditors can shirk is constrained by public accounting firm information and evaluation systems, including the acculturation process and the penalties for working too few hours (Asare et al. 2000; Margheim and Pany 1986; Reckers et al. 1997). The work-product review conducted by public accounting firms (AICPA 1999, AU §310.13) as part of quality control and superiors' knowledge of time requirements for task performance (Houston 1999)[16] also mitigates a CPA's ability to shirk. Covaleski et al. (1998) suggest that within the (then) Big 6 public accounting firms, structural and societal control mechanisms ensure congruence of individual CPA's work and lifestyle goals with those of the firm, consequently minimizing shirking.

A final factor expected to impact professional contribution is states of nature. Examples of states of nature relevant to an audit environment include technical audit issues such as discovery of contentious accounting issues, the need for additional testing of client records, and administrative complications such as lack of client cooperation and audit team staffing conflicts. These factors are all states of nature that are largely outside the control of the firm and the professional once the decision to accept or retain the client has been made.

Transitions

For any employee with a multidimensional job, there are transitions that occur as the employee moves from one activity to the next. The professional contribution for an auditor includes numerous activities (Hooks and Higgs 2002; Jiambalvo 1979) that require switching from one dimension or task to another and, therefore, cannot be completed without interruption. Interruptions decrease professional contribution because the individual must stop to reorganize their thoughts or reconfigure workspace. Similar to many other professionals, auditors experience a large number of interruptions

[14] Miyazaki (1984) describes social loafing as the moral hazard resulting from less effort being exerted by individuals who work in teams because it is difficult to measure individual work effort.

[15] Underreporting can be viewed as a form of shirking since it diverges from the interests of the group.

[16] The standard time has built-in slack for factors beyond the professional's control and beyond the observation of the principal such as availability of documentation and interruptions. The low profitability on audit services observed in recent years suggests that there may be very little slack in the audit function performed in traditional ways.

and transitions due to working in a hierarchical team and dealing with multiple concurrent clients. These transition activities are not "efficient," but are nevertheless necessary to carry out professional contribution activities in a timely fashion. The way transitions are handled and influence the contract may be affected by number and size of clients, expected billable hours, and realization rates. Whether public accounting firms compensate for this transitional time is an open research question. Thus, we have included transitions as either a positive or negative element in our model.

Labor Market Effects

Finally, labor market forces drive the compensation that public accounting firms provide auditors. At least during the late 1990s firms may have been paying a premium over cost-of-living-related salary increases. Evidence of this premium includes the myriad of benefits offered to retain employees, increasing entry-level salaries, signing bonuses, etc. (Fleischman 1999). This force abated somewhat but not entirely a few years later, concurrent with changes in the economy (Priest 2002), and can be expected to react again to economic changes. Accordingly, for completeness, a labor market effects adjustment is included in the employer side of the equation.

Value Received by the Auditor

The employee-related portion of the framework is the value received by the individual auditor. Employee-related variables are those items that the employee receives as a part of a compensation package. The CPA's compensation package consists of six elements representing value. These include salary, benefits, development, flexibility, deferred compensation, and satisfaction of personal preferences.

Salary and Benefits

The monetary amount of salary paid is typically a function of the CPA's experience and expertise, and labor market effects reflecting the supply of and demand for that experience and expertise. Benefits are considered a separate element in the employment contract model because the benefit packages received by auditors are significant, negotiable, and often go far beyond those offered to nonprofessional laborers (*CPA Journal* 1996). Many benefits are now a standard negotiable portion of the professional auditor's compensation package and include: retirement plans, spouse relocation services, real estate assistance, healthcare insurance for same-sex partners, maternity leave, adoption assistance, concierge services, tax services, etc.

Development

Opportunities for professional development is an element of value received by employees that is implicit in the employment contract (Messmer 2001). Formal technical training is provided through continuing professional education required to maintain licensing and meet firm quality-control goals. Staffing decisions are made at least in part to give auditors exposure to a variety of industries, companies, technical issues, and audit teams.[3] Each of these contributes to developing audit knowledge and a broader set of business skills. The audit review process and related feedback also improves audit abilities (Bonner and Walker 1994). Since auditors typically have multiple clients, they are exposed to numerous work teams and opportunities for behavioral development in areas of managerial, social, and practice development skills. Behavioral development includes professional demeanor and sales and management skills, and evolves informally from interpersonal interactions including mentoring relationships (Scandura and Viator 1994), observing colleagues, and other ill-defined processes (Dirsmith and Covaleski 1985). The extent to which an auditor takes advantage of and values these opportunities is likely a function of career goals, aspirations, and intent to use public accounting as a "stepping stone" to another career position. These behavioral and technical development opportunities increase an auditor's human capital value (Fogarty and Uliss 2000) and therefore are included in compensation received by an auditor.

[3] It may also be argued that staffing decisions can be affected by personnel constraints or even the desire to "reward" certain individuals with preferred engagements.

Flexibility

Lists of "Best Places to Work" consistently include some public accounting firms (*CPA Journal* 1996). An important determinant of inclusion on those lists is a firm's work-life balance policies related to flexibility. Relevant to auditor compensation, research has shown that flexibility has value to public accounting professionals because it allows them to enhance quality of life while maintaining or enhancing their human capital (Hooks and Higgs 2002). Additionally, auditors using flexible work arrangements reported having lower levels of burnout and higher job satisfaction (Almer and Kaplan 2002). Accordingly, flexibility is included as a component of the auditor's compensation.

Deferred Compensation

A recognized part of the compensation package of public accounting employees is known as deferred compensation (Malos and Campion 1995). Deferred compensation describes the expectation that current compensation may be lower than market, with the understanding that a higher salary may be paid in the future, perhaps when the employee is admitted to the firm partnership or because the employee moves to a higher-paying industry job (Marxen 1996).[18] From the perspective of the firm, the current lower salary can be justified to current and potential employees by the extensive additional training and development provided to the auditor. If the auditor is admitted to the partnership, the deferred sum is remitted in the form of ownership rights upon admission. If the auditor voluntarily leaves public accounting prior to retirement, then this deferred compensation may be accrued in the form of a differentially higher salary at the new employer. However, it should be noted that if the new employer is a public company, deferred compensation could be dampened to the extent that the Sarbanes-Oxley Act prohibits desired employment opportunities. Ultimately the expectation of deferred compensation will depend on the CPA's belief that she or he will be able to obtain future positions at higher compensation (either inside or outside of the firm) by sacrificing in the present.

Satisfaction of Personal Preferences

The personal preferences component of the model reflects aspects of the job and work environment that promote personal satisfaction. Auditors may derive personal satisfaction from contributing to the efficient functioning of capital markets (Carmichael 2004). Individual auditors can satisfy personal preferences for challenging work within the ever-changing public accounting environment. Auditors continually experience this changing environment from new technical issues, clients, co-workers, and responsibilities. Finally, there exists potential satisfaction related to the perceived prestige of being a CPA working in public accounting.

RESEARCH PROPOSITIONS

The previous section drew upon agency theory, the sociology of the professions literature and a large body of research on the public accounting profession to articulate a model of the public accounting firm-auditor employment relationship. Much of the value of the framework however, lies in its potential to highlight fruitful areas for future research. Thus, in the next section we consider a series of research propositions flowing from our theoretical framework, noting in particular why these questions are practically and theoretically worthy of future research. In doing so, we link our research propositions with elements of agency theory and the sociology of the professions literature, and in some cases acknowledge where these bodies of literature are silent. Table 1 lists the condensed research propositions, which are grouped together by components of our employment contract framework. The following section discusses numerous empirical questions that flow from these condensed research propositions.

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[18] An expectation of receiving deferred compensation may also be logically linked to a high level of organizational commitment. In other words, if a young CPA professional is highly committed to his or her organization, even though he or she is required to work very hard relative to the current level of salary compensation, part of the high commitment may be because of an expectation of "abnormally high" compensation in the future via either admission to the partnership or later movement to another organization.

TABLE 1
Condensed Research Propositions

Model Element	Research Proposition
Value of Professional Contribution	Multidimensional job activities of the auditor as well as how they are valued, communicated, and measured is not articulated and may not be well understood by parties to the employment contract.
Value of Transition	Transitions occur in completing the work product, but it is not clear how they are built into employment contracts and how transitions may or may not benefit the firm and the auditor.
Salary and Benefits	Salary and traditional benefits are not the only compensation received by auditors.
Professional Development	The value placed on professional development is unknown and influenced by unspecified variables and may differ between the auditor and the firm.
Flexibility	The value placed on flexibility is influenced by the personal needs of the auditor and confidence in the firm's information system.
Deferred Compensation	The value placed on deferred compensation is unknown and influenced by unspecified variables, and differs between the parties to the contract.
Satisfaction of Personal Preferences	Satisfaction of personal preferences is necessary to the auditor, but the personal preferences are ill-defined and thus may not be properly valued or explicitly recognized in the employment contract.

Value Received by the Firm

Professional Contribution

Research to date has not identified and explained the components of and influences on professional contribution that are valued and compensated by accounting firms. Insights into these questions surrounding professional contribution can be gained by considering observations made by several noteworthy agency theorists. Gibbons (1998) models agency theory by acknowledging that the agent's contribution is multidimensional. Determining an optimal contract when there are multiple dimensions to the job introduces difficulties. Specifically, Eisenhardt (1989) notes that agency literature typically models the contract as being based on either behaviors of the agent or on outcomes. Yet in the rich context of the auditor/accounting firm relationship, this employment contract is much more complex. On one hand, auditors are expected to engage in staff development, a behavior, yet on the other hand are expected to generate new business, an outcome. Multiple dimensions of the job, and the varying and multiple methods of measuring those dimensions, underscores the difficulty in clearly articulating to the auditor what is expected (Jiambalvo 1982; Jiambalvo and Pratt 1982). Thus, our theoretical model prompts the research proposition.

Research Proposition: Multidimensional job activities of the auditor as well as how they are valued, communicated, and measured may not be clearly articulated or well understood by parties to the employment contract.

Regarding valuation of the components of professional contribution, a variety of empirical questions exist related to how and under what circumstances technical, managerial, and administrative components are differentially weighted. For example, Tan and Libby (1997) note that the primary difference between seniors and managers is not technical skills but tacit knowledge. Therefore, it is reasonable that the professional contributions resulting from technical skills and tacit knowledge are differentially weighted depending upon hierarchical level. Other more subtle dimensions have not been clearly articulated. In a recent commentary, Arthur Wyatt (2004) notes that practice development and other managerial skills have become relatively more important while technical accounting skills are relatively less important. This supports the longstanding anecdotal message that firms consider rainmakers and effective client relationship partners as highly valued contributors. Alternatively, given constraints of the Sarbanes-Oxley Act, firms may reward professionals for being risk-adverse and displaying knowledge of and careful adherence to technical standards. This expectation of varying risk-seeking propensities is supported by Ayers and Kaplan's (1998, 2003) work that found second partner reviewers were more risk-adverse than the primary engagement partner. Thus, understanding which dimensions of professional contribution are valued by firms, and under what circumstances this can differ, is worthy of further study.

A long tradition of research in accounting and psychology (e.g., Van Eerde and Thierry 1996) has utilized an expectancy theory framework to examine different aspects of employee motivation. Expectations of multidimensional job activities, which may not be clearly articulated to auditors, are expected to have a motivational impact. Relevant to the auditor-firm employment relationship, communicating firm goals and congruence of these goals with the compensation or reward structure is important to effectively motivate (Jiambalvo 1979) and retain employees (Lampe and Earnest 1984).

Related to motivation, a final area of research propositions on professional contribution concerns measurement. As alluded to earlier (Eisenhardt 1989), how audit firms measure professional contribution is an open question. Although some dimensions of the job may be clearly behavior- versus outcome-based, there are some activities that have elements of both. The technical audit work is arguably one such component. Evidence exists that there is an outcome element to measurement. CPAs are expected to "do whatever it takes to get the job done" and are typically paid a flat salary, irrespective of hours worked. In contrast, there is also a behavior element evident as auditors are expected to meet a minimum level of billable hours, and to employ high cognitive skills levels. How firms measure professional contribution has wide-ranging implications for budgeting, audit quality, and professional behavior. For example, it is unclear whether the quality recognized in the outcome-based aspect of the model is enough to override any mental influence of the "clock-punching" behavior. Relatedly, it has not been explored whether the combined behavior-and-outcome-based approach to measurement of the work product nurtures professional behavior.

Transitions

Transitions as presented in the model, is an acknowledgement of the pattern of work activity of auditors that has not been addressed in accounting research to date. As mentioned earlier, neither agency theory nor the sociology of the professions literature directly addresses the issue of transitions. However, the notion of transitions is implicit in a multidimensional job (Eisenhardt 1989; Gibbons 1998). A strict interpretation of agency literature presumes a work-averse agent who, to the extent there is information asymmetry about transitions, utilizes transitions to avoid work (Jensen and Meckling 1976). This is tempered by the sociology of professions literature, which counters the notion of a work-averse agent. As such, we pose the following research proposition: Transitions occur in completing the work product, but it is not clear how they are built into employment contracts and how transitions benefit the firm and auditor.

An important empirical question related to transitions is whether they can pose a risk to audit quality as transition time is a component of the overall pressure faced by the CPA. For example, employees may underreport transition time since they may not view it as "billable time." It is possible transitions are built into the employment contract as part of the compensated work product via budgetary slack (Houston 1999). On the other hand, if there is no slack that allows for these transitions, then the auditor must decide between going over budget, which has negative performance evaluation consequences, or underreporting time or prematurely signing off, which are considered reduced-audit-quality acts and likely have negative motivational consequences (Otley and Pierce 1996; Malone and Roberts 1996; Lightner et al. 1982). If auditors perceive transitions to be mandatory but uncompensated, then they may avoid needed transitions or shirk in the cognitive effort that recovering from transitions requires.

It is unclear how the transitions may or may not benefit the firm and the auditor. One could argue that transitions have both positive and negative effects on everyone. They are necessary to accomplish all of the dimensions of the professional contribution, yet they can interfere with accomplishing any one dimension efficiently in a timely manner. It is probable that the relative effect of transitions may depend upon other variables such as the levels of technology and flexibility employed by the firm or hierarchical level of the professional. For example, transitions likely improve a partner's ability to accomplish the necessary audit objectives by enhancing communication and information availability, but detract from an entry-level auditor's work quality by distracting the auditor's concentration. Yet this same entry-level staff person might also benefit from interruptions by receiving social training or mentoring. In short, transitions are a rich area for future research.

Turning to the other side of our theoretical framework, we now discuss research propositions related to the auditor-employee.

Value Received by the Professional

Salary and Benefits

Agency theory is based on the rational man from economics for whom more wealth is better than less. Traditionally, agency theory has been modeled in a corporate context in which the agent has received pecuniary rewards such as salary, stock options, and bonuses (Jensen and Murphy 1990). In contrast, the sociology of the professions literature introduces the concept of nonpecuniary rewards associated with being a professional (Freidson 1986). In the following sections we discuss research propositions related to the nonpecuniary rewards received by auditors.

Development

Professional service firms must provide their employees with a high degree of development in order to foster expertise (Earley 2001) and increase professional contribution (Malos and Campion 1995). This in turn benefits the auditors as it increases their human capital value (Fogarty and Uliss 2000). Consistent with other forms of nonpecuniary compensation, agency theory does not address development. Generally, however, the sociology of the professions literature supports the notion that knowledge workers need and are expected to maintain their knowledge; it is part of what defines them as a professional and is supported by required continuing education (Freidson 1986; Larson 1977). Relatedly, professionals are also subjected to an acculturation process during which they are indoctrinated into the behavioral and organizational norms of the profession (Fogarty 1992), also a form of development. Thus, while this literature asserts that development as a form of compensation exists, it provides no insights as to how it is valued by the auditor, nor whether the value placed on it differs between the auditor and the firm. This leads to our next research proposition:

> **Research Proposition:** The value placed on professional development is unknown and influenced by unspecified variables and may differ between the auditor and the firm.

Accounting literature to date has not clearly identified the variables that affect the value incumbent auditors place on training and development provided by their firm. Development is logically linked to deferred compensation, likely through the moderating variable of the auditor's long-term career objectives. For example, an auditor not intending to remain with the firm places less value on training related to firm-specific policies. In contrast, an auditor intending to leave for corporate accounting may place higher value on Financial Accounting Standards Board and Securities and Exchange Commission updates, yet less value on auditing standards updates. Firms also provide formal and informal behavioral development on such "soft skills" as subordinate management, client development, and interviewing techniques (Viator 2001). The development component may also be a way that the larger CPA firms differentiate themselves in the labor market.

Relatedly, firms have been increasingly organizing along industry lines (Bell et al. 1997). The benefits of this to the firm have been validated by empirical research demonstrating fee premiums and higher quality audits by industry experts (Craswell et al. 1995; Ferguson et al. 2003; Balsam et al. 2003) and behavioral evidence of more knowledgeable audit judgments by industry specialists (Solomon et al. 1999). Yet even though this research stream is developing, we are unaware of any research that has attempted to validate or quantify the benefits of industry expertise to the development of an auditor's human capital. Thus, the value placed on industry specialization may differ between the firm and the auditor and by industry.

Flexibility

The accounting research community knows little about how flexibility interrelates with the employment contract. The sociology of the professions literature suggests that professional auditors expect a measure of control over how and where their work is performed (Freidson 1986). Accounting research has shown that an auditor's willingness to take advantage of formal flexibility options is a function of the auditor's personal needs and a variety of organizational variables (Almer et al. 2003; Hooks and Higgs 2002) such as office culture, politics, and importance of colleague's opinions. To understand the value placed on flexibility, consider how the nature of the job and the employment contract is impacted. With time and location flexibility, and a multidimensional behavior/outcome employment contract, evaluation of an employee using existing monitoring systems becomes more complex. To the extent flexibility reduces observability of behaviors, the firm may have greater concern about the auditor's contributions and may possibly move to more outcome-based measures as a result. The auditor may, in turn, value the flexibility less because of a lack of confidence in the firm's information system.[19] Literature on adoption of flexible work arrangements in public accounting highlights this concern about the system and may explain why so few auditors adopt flexible work arrangements (Almer et al. 2003). This leads to our next research proposition:

> **Research Proposition:** The value placed on flexibility is influenced by the personal needs of the auditor and confidence in the firm's current and future information system.

Since the employment contract is represented by an equality, changes in the value placed on flexibility necessitates a change in some other model element(s). Research suggests that some CPAs using a flexible work arrangement believe they accept more than a proportional salary reduction and are reducing their upward mobility (Almer and Kaplan 2000). In other words, they are receiving less monetary and deferred compensation as a result of including flexibility in their compensation packages. Because flexibility changes work times and/or locations, many aspects of the multidimensional job may be affected, thereby changing the relative composition of the professional contribution received by the firm. For example, mentoring activities are likely reduced when an auditor works from home. Conversely, anecdotally we hear that individuals like to work from home because there are

[19] Agency theory, which assumes a work-adverse agent, states a monitoring system is essential for reducing information asymmetry. Without a system, the principal will assume that the agent will shirk and will compensate the agent for a minimal amount of work. A truthful agent will therefore demand a monitoring system. Thus, both parties desire a system to capture the value of the agent's work (Jensen and Meckling 1976).

"fewer interruptions." If this is the case, then it suggests that firms may accrue a productivity gain from the elimination of transition times; alternatively employees may be able to increase their shirking. These possible scenarios illustrate the interrelatedness of flexibility and other model components.

Deferred Compensation

An important element of what auditors receive for their work effort is what has been called deferred compensation (Malos and Campion 1995). The sociology of the profession's literature supports the notion that an element of this deferred compensation is logically linked to the "professional apprenticeship" of the initial years of on-the-job training received by an auditor (Freidson 1986; Larson 1977). An anecdotal belief persists that the longer an auditor stays in public accounting, the greater the accrued deferred compensation. This belief tends to hold whether the auditor attempts to make partner or intends to leave for a corporate position. Viewed through the lens of agency theory, this can be explained in part by the following. As an auditor moves up in the firm, the employment contract becomes more outcome-based and therefore the auditor bears more of the risk (Eisenhardt 1989). This shift toward outcome-based contracts may also explain flexible work arrangements more common at higher ranks. And theoretically, since the auditor is sharing more risk without an appropriate increase in current pecuniary compensation, the deferred compensation becomes relatively greater. Yet beyond understanding this fundamental relationship, agency theory does not provide any precise understanding of deferred compensation including the possibility of not enough slots for all candidates to partner in a given year.[20] It is simply accepted as a vehicle by which risk becomes increasingly shared between the principal and the agent.[21] Therefore, we propose that the value placed on deferred compensation, is unknown and influenced by unspecified variables, and may differ between parties to the contract.

Particularly in the current climate, the value placed on deferred compensation is unknown and changing. Deferred compensation may be linked to partnership aspirations or the promise of high-level positions in the corporate sector. Yet it is likely that the value placed on this deferred compensation may have been influenced by recent accounting scandals. The Sarbanes-Oxley Act (2002, Rule 206) restricts high-level job opportunities at clients. At a macro level, there is evidence that a negative reputational spillover affected non-Andersen clients when information on the Andersen shredding admission was released (Dooger et al. 2003). That is, having been associated with a public accounting firm may have lost some more prestige due to the misdeeds of auditors at other firms. Beyond environmental influences, the position of partner may not be as highly valued as it once was. Job security is less and aspiring partners may be more cognizant of the risk of losing their equity capital in the firm. The current nature of a partner's job may also reduce the desirability of becoming a partner given evidence that partners work extraordinarily hard, including vacations and weekends (Hooks and Higgs 2002). To the extent an individual auditor places importance on work-life balance, it is expected that the value of deferred compensation will be diminished.

The manner in which the value of deferred compensation affects the employment contract may be linked with shirking. If an individual auditor places a low value on deferred compensation, then the auditor will either exit due to perceived undercompensation, or the auditor may stay but provide less of a professional contribution to the firm perhaps by shirking. To the extent that deferred compensation is tied to expectations of remaining with the firm, there is a practical implication for

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[20] In addition to agency theory, tournament theory (Rosen 1986) may provide some insights into the incentives managers have to value the deferred compensation element of the employment contract.

[21] Utilizing agency theory, Malos and Campion (1995) propose and test (2000) an options-based model of career mobility in professional service firms whereby they argue that deferred compensation is logically linked to the up-or-out model of law firms. That is, deferred compensation serves to align the interests of the lawyer with firm partners, and that each lawyer is viewed as an option that can be strategically abandoned if partnership is not probable.

audit quality. Donnelly et al. (2003) found that dysfunctional audit behavior (i.e., audit-quality reduction acts) was directly related to turnover intentions. More broadly, this illustrates the larger issue that the value of deferred compensation may differ between parties to the contract, and therefore may play a role in determining optimal compensation packages.

Satisfaction of Personal Preferences

Finally, there is the somewhat ill-defined element in the model labeled satisfaction of personal preferences. While much of this relates to individual differences not under the control of a firm, agency theory offers some insights into factors that may impact the value placed on this model element, although the theory does not describe factors that drive personal satisfaction. However, as Eisenhardt (1989, 59) notes, "principals and agents have partly differing goals and risk preferences." The fact that both parties to the contract share the same profession provides some convergence of goals and risk preferences since both parties received the same socialization. They can both be expected to strive to ensure the protection of their license to practice and avoid litigation, negative publicity, and unreasonable regulation of the profession. However, a variety of other factors such as work effort required, autonomy afforded the auditor, extent to which growth needs are met, travel demands, collegiality of the work environment, and the types of clients audited can all impact personal satisfaction. The importance of these variables to auditors is supported by the sociology of the professions literature in terms of professionals' work expectations. This leads to our final research proposition:

Research Proposition: Satisfaction of personal preferences is necessary to the auditor but the personal preferences are ill-defined and thus may not be valued or recognized in the employment contract.

A number of variables logically related to satisfaction of personal preferences have been examined in accounting literature on turnover and job satisfaction. For example, Dalton et al. (1997) found that extent of control in the workplace was negatively related to actual turnover of managers and partners. Collins and Killough (1992) found that job stressors impacted propensity to leave public accounting and job dissatisfaction. Thus, while prior research suggests negative outcomes if an auditor's expectations of these variables are not met, prior research has not examined the extent to which the presence of these variables can have *positive* outcomes. That is, the value of satisfying personal preferences is unclear, which is particularly important in understanding the extent to which it can offset dissatisfaction with other elements of compensation received.

VALIDATION OF THE FRAMEWORK

We acknowledge the need for validation of the framework. The framework as presented builds upon prior research and our understanding of the firm-auditor relationship. However, testing boundary conditions of the framework will be necessary to validate that it appropriately represents the relationship. The first step in establishing boundary conditions is determining whether all variables included in the model have a nonzero value, and whether all variables have been included. We have attempted to include variables of which we are aware, including those specifically studied by prior academic research as well as those more recently suggested by changes in the practice of public accounting. When there is any likelihood that a variable has a zero value, we have tried to highlight this possibility. For example, we expressed uncertainty about the current value placed on deferred compensation by individual auditors. Yet an obvious question is whether *firms* still believe deferred compensation has a positive value. Understanding boundary conditions would require determining how both firms and auditors have adjusted the contract equation to allow for changes in deferred compensation value.

Beyond researching whether the variables included have value, and that no variables are omitted, establishing boundary conditions requires consideration of the relationships among variables within the framework. We have presented the framework as a simple algebraic equality. Yet it is quite likely there exist multiple relationships of dependence and covariance both within and between the firm and the auditor variables. An opportunity exists to enrich the model by exploring which of these variables may depend upon others. For example, on the auditor side, is salary level required dependent on the flexibility provided? Or, more likely, are the personal preferences of the employee one of the causal factors underlying the interaction of required salary and flexibility? And, on the firm side, do these depend on the level of professional contribution expected by the firm, or on the work ethic of the auditor? Thus, in exploring the boundary conditions, it is necessary to consider these potential relationships and interactions extending to variables describing both the professional contribution and compensation.

Concluding Thoughts

This paper presents a framework illustrating the employment contract between a public accounting firm and the professionals who work within it. The framework articulates those aspects contributed by a professional and for which the employing firm compensates the professional. It also presents the various elements of the compensation, articulating the various components that professionals value and expect as a reward for their work. The employment contract framework is initially based on the "rational economic man" proposition of classical agency theory and is modified to reflect the divergence in behavior that occurs when professionals are the agents to whom agency theory is applied. The behavior divergence discussed in the sociology of professions literature is assumed to result because professionals value non-monetary as well as monetary rewards. Utilizing this background literature, a framework of the CPA firm-auditor employment relationship is developed within the rich context of the distinctive public accounting environment. Implications of this employment relationship for audit work and the audit profession are explored along with resulting propositions for future research.

The contribution provided by the framework developed in this paper is both retrospective and prospective. In developing the framework, a wide range of prior research on the CPA firm-auditor employment relationship is integrated and situated in a broader context. Perhaps more importantly, the framework developed in this paper provides a foundation for understanding and exploring issues related to CPA firm and auditor employee behavior within the contextually rich and dynamic public accounting environment. By articulating the situational, organizational, and individual factors impacting both what firms provide to their professional employees and how employees may value what is provided, we present a research tool to help researchers formulate future research with an awareness of the large set of variables and their relationships affecting auditors.

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