

The background of the entire page is a grayscale illustration of several interlocking gears of various sizes, creating a mechanical and interconnected theme.

Rediscovering our life: innovative social and organizational aspects in the modern era

*Alberto Ochoa
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Hokkaido University

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First Edition, April 2014.

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ISBN: 978-1-304-83427-0

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Produced in the United States

Edited by Phd. Alberto Ochoa.

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Prologue

In this book you will find a wide range of topics related to the science of administration which is the result of the work of different researchers, which allows the reader to delve into different administrative aspects related to the management of companies and any organization.

Research that seeks to explain the importance of customer service comes first, not only large corporations but also small businesses, where the attention and care to be provided to customers is critical factor for life thereof, the micro and small enterprises in Mexico represent over 95% of business organizations, reflecting the importance of the topic. The approach is realized precisely in a small company which is dedicated to providing automotive painting service.

Then the issue of productivity is touched, an essential element for the survival of organizations seek to produce more with fewer resources, there will always be an asset of any organization in the competition for the market, the causes are varied, and this chapter analyzes the impact on labor productivity uncertainty that occurs when the employee does not know if your job is permanent or at any time can lose, which results in a high turnover which creates a high cost to be replaced these workers.

One of the key elements for the success of any organization is the leadership characteristics that the leader must develop are becoming more and more complex, one of them is emotional intelligence, that speaks Chapter 3, a study on the leadership and emotional intelligence conducted at the Psychiatric Hospital "Civil Libertad" in Juarez, where it is concluded that training on emotional intelligence will be key to the success of teamwork that takes place in this organization.

Chapter 4 is shown the importance of good quality, which now is no longer a unique feature of organizations, but a basic element for the survival and competitiveness of the same, the study was carried out in a restaurant and to highlight the relevance of the study states that the restaurant industry represents 1.4% of GDP, the research concludes that 95% of the customers are satisfied with the speed and quality with which they serve their food, which reinforces that quality is essential in today's organizations of any size are.

According to the content of the fifth chapter of the book, 90% of students in the Bachelor of Business Administration colleges in Juarez feel empowered to be entrepreneurs, reflecting that universities are fulfilling the purpose of train professionals able to join a company or start their own business, also highlighted the importance of the entrepreneur in the dynamics of the economy of a country and are essential factors for growth and improvement of the same.

If the reader wants to know the importance of quality in the service of the Autonomous University of Ciudad Juárez, chapter six gives you the opportunity to know how far the perception of students about the quality of education at this institution, since all service entities focused on the customer, must clearly identify the needs of their consumers and develop an action plan as part of its goals and objectives. In particular, this study identifies five factors as part of the SERVQUAL scale to measure customer service quality:

tangibility, faithfulness, service responsiveness, assurance and empathy. So, this instrument is used to measure student satisfaction and identifying areas for improvement in the school. The results show that 61% of the student population surveyed said the services could be greatly improved because it is evident that even though the university provides various student services, students are not fully satisfied, therefore, the university must work in an improvement plan to better serve students.

Under this theme, chapter nine shows the motivational factors that have more to do with enforcement of professional ethics in an educational institution, analyzing the most important motivational factors for students at the Autonomous University of Ciudad Juárez showing the importance of ethics professional as the branch of knowledge that is closely related to the study of moral actions of individuals and groups, as well as the rules and procedures governing the behavior in a given entity.

Furthermore, chapter seven discusses how the service provided by business incubators service Juárez impact on economic development in the region to show the main advantage of its geographical location placing it as the second largest trading region border crossing with U.S. followed by low labor costs, which together are the main factors that promote competitiveness and entrepreneurial spirit in the region, opening up more investment channels for domestic and foreign capital. Therefore, this chapter deals with the approach of a linear equation indicators of successful business incubators in the region, analyzing control four variables: economic, social, finance and culture; evaluating these variables with the level of success four business incubators that have been incubated SME's in the area, identifying its strengths and weaknesses.

So, the eighth chapter presents an improvement plan for organizational development of family SMEs using strategic planning, showing how business values generate a competitive positioning in family firms, because family seeks harmony, the company seeks competitiveness and controlling the underlying property profitability. However, the main challenges facing businesses and families in Mexico are conciliation of interests among family businesses, integrating the talents of family members, the professionalization of the family business and succession process. Given this, the main reasons why family businesses in Mexico are stagnate and fail for lack of a business plan, misuse of funds and lack of ability to access new markets. Given this, this chapter shows the theories and models oriented strategic plans that family businesses achieve optimal organizational development.

Finally, the last chapter presents the changes in patterns of production in the automotive industry showing how this industry moves its forms and sites of production to Asian countries representing more than 50% of world production, just as China, Japan, South Korea and India in 2012 produced 45% of vehicles worldwide, reflecting the importance of the region in the automotive sector. However, most car manufacturers have been established in China, because the Chinese government understands that the car industry is crucial to boost growth and economic development of the region you want to control all key areas related to industry this industry, such as the control of cash flows, permits, mergers, and manufacturing models. So, brands that are leading the growth of the Chinese market are General Motors and Volkswagen to comply with the rules of the consortium established by the Chinese government to build cars, which favor the sovereignty and local protectionism and the know-how and competitiveness globally.

Also, chapter ten shows how the car manufacturers are moving their production to areas other than where they regularly produce their cars for various reasons, among which are the lower costs of labor, geographical location and evolution of emerging countries in the next 20 years is projected as an important market segment for the leading manufacturers of automotive assembly, standing out as favorites China, India, Russia and South Africa; because the major American's, European's and Asian's companies are moving their platforms for some of these countries according to their own vision of leadership, aimed at achieving an advanced organizational planning and addressing strategic interests.

Esther Carmona

Ricardo Melgoza



VNIVERSITAT
DE VALÈNCIA



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UNIVERSITY

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ISBN 978-1-304-83427-0 90000



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CHAPTER

COMPETITIVE FACTORS MARKET AUDIT

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SUMMARY

International literature suggests that to understand the nature of competition in a particular market is required to analyze the conditions of the cost structure and market demand, placing at the center of analytical interest in the strategies followed by companies in relation to its leadership in the market. The aim of this paper is to analyze from a theoretical point of view the factors that may explain why large international firms, known as the Big 4 seem to have a competitive advantage relative to the rest of the other audit firms active in this market. The results indicate that specialization by sector and size of the audited companies, as well as the implementation of economies of scale and the use of structured audit methodologies are strategic factors that explain the competitive advantage of the Big 4 audit service offering more competitive than the rest of its competitors in order to gain greater market share prices. Also, the results indicate that reputation, brand name and size of the Big 4 are also strategic factors that induce a vast majority of large companies who prefer to choosing, these large international firms.

Keywords: Factors, Competitiveness, Market Audit, Big 4.

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1. PRESENTATION OF CHAPTER

Over the past four decades the literature published in the international arena has been collecting various empirical studies on audit markets in different countries, through which has been demonstrating the existence of a high concentration for a few audit firms, namely the Great International firms, known in the business world as the "Big 4" (Zeff and Fossum, 1967; Rhode et al, 1974; Dopuch and Simunic, 1980; Danos and Eichenseher, 1986; Moizer and Turley, 1989; Tonge and Wooton, 1991, Christiansen and Loft, 1992, Beattie and Fearnley, 1994; Maijoo et al, 1995; Johnson et al, 1995; Iyer and Iyer, 1996, Walker and Johnson, 1996; Marten, 1997; Shaen and Maijoo, 1997; Peel, 1997; Benau Garcia et al., 1998; Quick and Wolz, 1999, Pong, 1999, Wolk et al, 2001; Thavapalan et al, 2002; Beattie et al, 2003, Carrera et al., 2005; Baskerville and Hay, 2006; McMeeking, 2007; Hamilton et al., 2008). This high concentration in the hands of so few audit firms has generated a high concern of international regulators, especially the possible implications that the high concentration might have on the level of audit market competition at the international level (Metcalf Report, 1976; Sarbanes-Oxley Act of 2002; American Assembly Report, 2005; Oxera Report, 2006; GAO 2003, 2008; FRC, 2006; European Commission, 2010; Competition Commission, 2013).

Accounting research has been sensitive to this situation and has studied the reasons why this structure occurs concentrated in the audit market, ie, analyzed the factors that may explain why large international firms appear to have an advantage competitive relative to the rest of the other audit firms active in that market (Turpen, 1990; Craswell et al, 1995; Manalis and Citron, 2001; Landsman et al, 2008). In this vein, the international literature suggests that to understand the nature of competition in a particular market is required to analyze the conditions of the cost structure and market demand, placing at the center of analytical interest in the strategies followed by the companies in relation to their leadership in the market (Bueno and Morcillo, 1993).

From the point of view of supply of audit services, the factors that have attracted interest among researchers to study accounting have been on the one hand, specialization by sector of activity audited companies and specialization by size of the audited companies, as arises by scholars audit market the possibility that there is an "accounting technology" for specific sectors, because in some cases the application and selection of accounting policies have character unique to a particular sector (Danos and Eisehseher, 1982; Campbell and McNiel, 1985; Palmrose, 1986; Craswell et al, 1995).

In the same vein, the factors that accountants are often interested researchers also analyzed from the point of view of the supply of audit services are the existence of economies of scale and the use of structured methodologies, since accounting research of market audit have been considered important to analyze the way in which can be an empirically testable relationship between economies of scale resulting from the business size of audit firms and market leadership, acquiring particular importance in regard to the audit market, the exploit the advantages for having a more favorable position in the average cost curve and the use of technologies that enable the production of audit services at more competitive prices. Thus, it appears that the literature distinguishes two factors or explanatory variables derived from economies of scale that can explain the high concentration of the audit market and the level of competition, such as the size of audit firms and the possible use of structured methodologies (Danos and Eichenseher, 1982; Ashton, 1983; Loebbecke and Cushing, 1986; Bamber and Snowball, 1988).

The accounting investigation in addition to studying the causes that determine the high level of market concentration audit from the point of view of supply, is also interested in analyzing the same reasons but analyzed from the point of view of demand, that is, from the perspective of the audited firms (DeAngelo, 1981; Dopuch and Simunic, 1982; DeFond, 1992). In this sense, the literature emphasizes that the analysis of the choice of auditor from the point of view of the audited companies is clearly related to the competitive market structure. The starting point of the studies that develop these aspects, considers that the concentrated structure of the market for audit services does not arise by an arbitrary decision process, but there are strong economic reasons for the behavior of companies and market structure that such behavior results. That is, the decision to choose an auditor and can exchange it for the companies, are the result of a rational process, the explanatory factors have been subjected to considerable research in the international literature over the past decades (Francis and Wilson, 1988; Beatty and Fearnley, 1995; Garcia Benau et al, 2000; Ireland and Lennox, 2002; Ruíz and Gómez, 2003; Monterrey and Sánchez, 2008).

Studies on the determination of the behavior of firms audited in regards to the choice of auditor, primarily arise from current scientific devoted to study the structure of audit markets whites, specifically to analyze the reasons why the ones in these markets a high level of concentration exists in the power of Big 4. In this regard, the literature highlights that following the approaches and results obtained by empirical studies on the choice of auditor in the audit markets especially the Anglo-Saxon countries have been describing different theories or approaches to processes choice of auditor, which have served the researchers in accounting as obligatory reference framework for the realization of their empirical studies on the choice of auditor (Simunic, 1980; Palmrose, 1986; Francis and Wilson, 1988; Turpen, 1990; DeFond, 1992; Beattie and Fearnley, 1995; Abbott and Parker, 2000; Garcia Benau et al, 1998, 2000).

The theoretical framework for the study on the choice of auditor, is classified into two study groups: On the one hand are studies that consider the provision of audit by itself is not likely to be able to differentiate mainly due to the regulation of its rules and procedures, making it the fare audit the condition for the choice of auditor factor, and on the other hand, we find empirical studies that consider that there are qualitative aspects in the provision of audit allow differentiation between the various bidders, where the market for audit enables auditing service differentiation according to their quality. Under this premise the applicants perceive audit service offered different qualities, why be elected those auditors who offer the required level of quality. Given a scenario in which supposedly quality audits are required, demonstrate that the choice of auditor is explained by the attribute of quality product when in this scenario are elected auditors who are considered to offer quality audits. However, in these studies as a major problem is to define auditors that offer audit quality services. Therefore match the assumption that the large audit firms often have more professional training and also given their larger client base, can withstand the pressure from their customers and maintain an independent attitude of their interests has. However, given that the quality of the auditor's work is not externally observable, accounting researchers have resorted to the use of surrogates in this way, the size of the auditor and the brand name of these, derived from the reputation which have these large firms constitute surrogate through which it intends to infer the differential quality offering these auditors (Simunic and Stein, 1987; Craswell et al, 1995; DeFond et al, 2002; Ireland and Lennox, 2002; Who audits America, 2003).

One reason that according to the literature justifies the choice of a Big 4 firm, is because their reputation favors the credibility of accounting information, it reinforces the confidence of investors in the integrity of financial statements of companies, such as evidenced by Theo and Wong (1993) documenting higher coefficients in response to the result audited by the Big 4 firms. A second reason to hire a reputed auditor should contribute to mitigate agency conflicts and reduce contract costs, and so on companies with significant debt also monitors the debt (Arruñada, 2000; Lai and Yim, 2002; Onder et al, 2004; Pittman and Fortin, 2005; Clatworthy and Peel, 2007; Kealey et al, 2007; Landsman, et al, 2008).

The purpose of this chapter, based on the above anteriorente, presents the results of five studies from the theoretical point of view that will be used to argue the extent to which some of the above highlighted factors can explain the concentrated structure of the audit market in Mexico, from the point of view of supply of audit firms and from the point of view of the audited companies, making these factors in determining the competitive advantage of large international companies, currently known as the Big 4.

2. THE EXPERTISE OF AUDIT FIRMS BY SECTOR COMPANIES AUDITED

As regards the specialized demands of audit firms according to the sector of activity of the audited companies, accounting research shows that audit firms, in order to meet this demand, made certain strategic behaviors. Such strategies are presented as investment expertise, like the acquisition of skills and experience above the average necessary expertise in the audit market, such as recruitment and training of staff, opening offices, software development and tools sophisticated decision, which enables them to such audit firms enjoy both economies of scale and economies of scope to offer their services in specific market segments, like specialized services at a lower cost than could offer other firms competing audit.

In this sense , research has concluded that the audit market can be segmented , allowing specialization based on the nature of the audited company , one of the fundamental aspects regarding the sector to which it belongs the audited company (Shockley and Holt, 1983; Simunic, 1984; Turpen, 1990; Craswell et al., 1995; Gramling and Stone, 2001). Because the specialized demands of audit firms according to the size of the audited company, accounting researchers believe that the demand for it is derived from the sheer size of the audited company, as features like; planning the audit, compliance testing of internal control, and audit program are dependent on the size of the audited company. However, in practice it is difficult to follow a particular company one of these strategies identified in pure sense, either in terms of cost leadership or expertise, there is rather a combination of both strategic behavior.

The literature highlights that effective audit requires expert knowledge of the environmental problems of the company, forcing the auditor to be trained in areas such as; knowledge of the sector of economic activity of the company and its financial, commercial and economic problems. This could explain that the audit firms as a strategic option to segment the market and specialize in specific productive sectors. However, it is worth emphasizing that excessive specialization presents a clear opportunity cost in terms, because the waiver into specific sectors , exploited by competitors , as well as the difficulty in using that experience in other sectors. Therefore

the possibility of exploiting economies of scale derived from the experience curve may not be entirely optimal, and therefore there must be a decision of a strategic nature about whether or not convenient to specialize in certain sectors of economic activity.

In this sense, literature have shown that the specialized demands of audit firms according to the sector of activity of the audited companies , demand is explained by the same companies require , so that audit firms in order to meet this demand, they made certain strategic behaviors. Such strategies are presented as investment expertise, like the acquisition of skills and experience above the average necessary expertise in the audit market , such as recruitment and training of staff, opening offices , software development and tools sophisticated decision, which enables them to such audit firms enjoy both economies of scale and economies of scope to offer their services in specific market segments , like specialized services at a lower cost than could offer other firms competing audit. In this sense , research has concluded that the audit market can be segmented, allowing specialization based on the nature of the audited company , one of the fundamental aspects regarding the sector to which it belongs the audited company (Shockley and Holt, 1983; Simunic, 1984; Turpen , 1990; Craswell et al, 1995; Gramling and Stone, 2001).

The literature presents the hypothesis that the leading audit firms enjoy market differences in the efficiency of the service and therefore these firms can enjoy some competitive advantage from its own strategic behavior. In this one of the variables or factors that most interest aroused among scholars of the audit market for submission to the empirical analysis from the point of view of the strategies followed by large international firms sense have been specialization implemented by these large firms international taking care sector activity audited companies and the size of these, and the exploitation of economies of scale from these large audit firms based on their firm size and the use of methodologies structured audit (Bedingfield and Loeb,1974; DeAngelo 1981; Dopuch and Simunic 1982; Palmrose 1986; Simunic and Stein, 1987; Turpen, 1990; Craswell et al, 1995; Colbert and Murray, 1998, Ferguson et al, 2006).

The literature presents the hypothesis that the leading audit firms enjoy market differences in the efficiency of the service and therefore these firms can enjoy some competitive advantage from its own strategic behavior. In this one of the variables or factors that most interest aroused among scholars of the audit market for submission to the empirical analysis from the point of view of the strategies followed by large international firms sense have been specialization implemented by these large firms international taking care sector activity audited companies and the size of these, and the exploitation of economies of scale from these large audit firms based on their firm size and the use of methodologies structured audit (Bedingfield and Loeb,1974; DeAngelo 1981; Dopuch and Simunic 1982; Palmrose 1986; Simunic and Stein, 1987; Turpen, 1990; Craswell et al, 1995; Colbert and Murray, 1998, Ferguson et al, 2006).

Also, the literature highlights that the process of analysis followed by accounting researchers to learn about the strategies implemented by large international firms in relation to specialization by sector of activity audited companies, is divided into three steps: First the degree of participation by sector audit firms active in the audit market, divided into two groups, first participation is calculated by sector of large international firms in the market is calculated, and on the other hand, sector participation in it of the other active audit firms is calculated.

This in order to verify if the results obtained from the distribution of the audit market serving sectors of economic activity of the client, are consistent with the results reported on the concentration, if this is the case, ie, that the results obtained on participation of major international firms by sector, are consistent with the results obtained in the concentration, then the methodological process could well end with the conclusion that the concentrated structure is largely explained by the specialization effect, depending on which complies with the hypothesis that large international firms have greater ability to specialize their knowledge.

However, accounting researchers in an effort to further deepen the knowledge of market behavior audit, considered necessary to support the conclusion that the large international audit firms are mostly specialized than other firms active audit and therefore the concentration in the audit market is explained by the specialization effect, consider that specialization in the sector by audit firms is a function of two variables: 1) the number asset audit on a specific industry and 2) the spread of existing market shares among these assets auditors. In this sense, researchers believe that if attending the number of active firms in specific sectors may then assume that the smaller the number of active audit firms in specific sectors, the greater the difficulty of auditing in it. While this statement may be methodologically valid, researchers have also considered that cater only to the number of companies and not the relative position of each audit firm in each sector, could cause the specialization effect has not been reflected so effective.

Therefore, accounting researchers studying the audit market have been using the Herfindahl index, which adequately reflects the actual structure of a market, as it is sensitive to both the number of companies operating in the market as the Unlike their market shares. Thus, in those sectors where the Herfindahl index is significantly higher than the overall market, then it will show that the sector requires auditors to be implanted in the same specialty. The results obtained by the aforementioned methodological process will serve to meet the different behaviors of active audit firms based on the level of industry concentration of economic activity of the audited companies. Based on the results, students determine audit market sectors in which the number of audit firms is low and the Herfindahl index is high. In these cases, the international literature emphasizes that the audit market is facing economic sectors that seem to require some specialization by the auditors to exercise professional activities. Also, the literature emphasizes that in order to deepen further on sectoral specialization and once determined according to the previous step on certain sectors where the market seems to require audit by audit firms active some specialization for the exercise of professional activity, then the last step to take in this process according to the methodological literature is empirically analyze the existence of strategic behavior by large international firms to specialize by sector of activity audited companies.

To this end, researchers have found that these behaviors occur when there are significant differences between the markets shares held by each of the major international firms in various sectors conceived as potentially specialized. International literature considered as an auditor specializing in a sector specific activity when its market share in this sector reached greater than 10% (Palmrose, 1986; Craswell et al, 1995, Francis et al. 1999; Gramling et al, 2001; Francis et al, 2005).

Derived from the results obtained in this last methodological step can determine the existence of specialization in the audit market and strategic behavior developed by audit

firms in order to be able to meet the demand for a specific sector, as well as, according to the number specific sectors in which each participating audit firm and the market share it enjoys. Moreover, based on the results obtained in this last methodological step, you can qualify the strategic behavior of large international firms to specialize by sector of economic activity of the client, so that this classification allows accounting researchers the power explain the reasons for the concentration in the audit market, as well as on the behavior of large international firms to specialize by industry that these develop (Moizer, 1992).

3. THE EXPERTISE OF AUDIT FIRMS BY SIZE OF BUSINESS AUDITED

In this section we will focus on the effect specialization according to the size of the audited company, as one of the possible factors that may explain the concentration of the audit market in Mexico. In this respect, we considered that the large international firms better known as the Big 4 may exhibit strategic behavior of expertise related to the size of the companies they audit. This is justified for the reason that the audit of financial statements of large companies and corporations requires audit firms a particular specialization, because these big companies make a large number of transactions and have complex organizational structures.

In this sense, it is unlikely that small audit firms and independent professional auditors can access the audit market segment of large companies. The arguments in the international literature that support specialization by size of companies audited have a clearly, exclusive and probabilistic connotations. In this regard, accounting researchers Dopuch and Simunic (1980) suggest that with decreasing the size of the audited company also decreases the likelihood that smaller companies hire some of the big international firms, known as the Big 4.

Continuing our analysis for the specialized demands of audit firms according to the size of the audited company, accounting researchers believe that the demand for it is derived from the sheer size of the audited company, as features like; planning the audit, compliance testing of internal control, and audit program are dependent on the size of the audited company. However, in practice it is difficult to follow a particular company one of these strategies identified in pure sense, either in terms of cost leadership or expertise, there is rather a combination of both strategies.

The methodology applied by accounting researchers to compare the specialization effect size of the client, according to the international literature, is as follows. First, the total sample of the empirical study is divided into different sections by size of the audited company, then based on the results obtained to identify the relative share of large international firms and other audit firms active in each one of these sections, in order to test the hypothesis that as the size of the audited companies increases, the participation of smaller audit firms decreases. This hypothesis is confirmed, then the researchers can conclude that there is a barrier to entry for small audit firms serving the business customer size (Simon and Taylor, 1997).

However the results obtained in the previous step, do not allow the audit market scholars conclude on the existence of certain strategic behavior of large international firms to get large sized business customers.

In this sense, the next methodological step applied by accounting researchers has been to distinguish in the empirical study by every stretch of firm size, both the number of active auditors in different sections as the value acquired by the Herfindahl index, based on the assumption that as you increase the size of the audited company, there will be fewer assets auditors and therefore higher market concentration.

Once we have obtained the results, then you can check the existence of a relationship between firm size of audit clients and auditor choice in the sense that as you increase the size of the client, the number of active audit decreases, increasing the Herfindahl index. However given that the objective is to analyze whether there is a strategic behavior of specialization of large international firms around the business size of audit clients, the international literature highlights what must now be considered whether assessed specific behaviors by of these large audit firms, for determining the existence of a type of customer profile.

Thus, the final step in this methodological process used to test the effect of specialization by audit client size, the use of the entropy index in order to obtain an accurate measure of the distribution of existing activity in the audit market in tranches between large international firms. This index is the weighted average of the market share of audit firm for specific segments based on the size of the audited company.

The entropy index takes the following form:

$$E = \sum_{i=1}^n C_i \cdot \ln 1/C_i$$

where:

C_i = market share of the total market share of a firm is in sector i .

According to the analytical formulation of the entropy index, the weight for each segment will be the logarithm of the inverse of its quota. The measure takes into account two factors: The number of segments in which an audit firm operates and the relative importance of each segment in the total share of each large audit firm. Therefore, the entropy index can be considered as a measure of diversification of audit firms by size sections of audited companies. This, from a methodological point of view, enabled analyze to what extent the total market share enjoyed by the big international audit firms is explained by its action in more sections of size. Derived from the results obtained by using the entropy index, you can conclude whether the audit market large international firms are specialized for the size of your audit client, may finally conclude whether the market structure and especially the concentration is explained by the specialization effect size of the client.

4. ECONOMIES OF SCALE FOR SIZE AUDIT FIRMS

The international literature also highlights that the study of the relationship between supply of audit services and market structure not only can be done from the perspective of the analysis of strategic behavior of auditors, but studies can also be performed where the strategic variable behavioral or not the explanatory variable.

In this sense, accounting researchers have always shown great interest in inferring the existence of a relationship between the size of audit firms and their market power, especially following the controversial Metcalf Report (1978), in the sense that large international audit firms for its high market share achieved audit might influence their regulators on behalf of the U.S. accounting profession and thereby prevent the existence of adequate competition from the rest of the other firms audit.

For this reason, research has sought to study the way in which can be an empirically testable relationship between firm size and cost leadership strategy, acquiring particular importance in regard to the audit market to exploit the advantages for having a position more favorable in the average cost curve and the use of technologies that enable the production of audit services at more competitive prices.

As regards the existence of economies of scale, the literature highlights the possibility that certain audit firms by their size, are more efficient than others by reducing cost of service provided. Based on this premise, accounting researchers study whether high market shares that have large international firms could come explained by the existence of these economies of size. Based on this premise, accounting researchers study whether high market shares that have large international firms could come explained by the existence of these economies of size (Francis and Stokes).

As we have noted before, there is the possibility of the existence of economies of scale arising from firm size, can be a determining factor that allows us to explain the competitive advantage enjoyed by large international firms in the market audit. Thus, economies of scale enable the design and development based on a cost leadership strategy. However, not all products or services offered on the market allow the exploitation of economies of scale or economies of size. In this context and given the characteristics of the supply of audit services features, seems at first that yes it could be carried out "mass production". However, the opposite can also be argued statement claiming that the audited companies own peculiarities I require a customized service delivery audit. In any case, it should be noted that the audit process and the formation of professional judgment allow some standardization when serving business with like or similar sizes and productive, commercial and administrative processes with a degree of similarity. From this point of view can be argued that the audit approach enables mass production.

The accounting researchers, in order to clarify the possible existence of economies of scale in the audit market, refer to the main operating mechanism for such economies of firm size are produced, we refer to the indivisible nature of production resources "indivisibility of productive factors can cause the existence of economies of scale in the audit market for the reason that such indivisibility produces the existence of high fixed costs".

Thus, the larger the market share of an audit firm, the greater the possibility that their firm size can develop a cost advantage over the competition, as the better off this large audit firm in its cost curve will enable it to offer the service at more competitive price.

Many of the costs they incur audit firms to maintain a high quality service are independent of firm size of the audit firm and have thus a fixed nature, special importance the cost of personnel and training thereof.

In this line, the Big 4 incurring the same costs that small audit firms increase their ability to develop a more audits, so the average fixed cost of these large international firms tends to decrease according to the number of audits or what is the same, based on the high market share enjoyed by. By contrast, small audit firms and independent professional auditors have restricted to face service demand capacity. Therefore imputation costs must be made between a smaller number of units produced, in this case, by number of audits.

Given this competitive disadvantage, small audit firms have two options: i) reduce fees below the large international firms, which means bear the losses and has limited temporal validity, or ii) increase the size, location it seems increasingly taking place in the Mexican market through partnerships emerged between small audit firms as well as among small audit firms and independent professional auditors. Thus, we can conclude that the existence of economies of scale implies the existence of an optimal size of the audit firm or minimum efficient size that ensures maximum benefit to the firm producing the minimum average cost. That is, the competitive advantage of an audit firm is related to firm size through economies of scale. In any case we can conclude that the higher the number of audits performed by various accounting firms, will better position them relative to the average cost curve, enabling them to operate at higher efficiency conditions.

International literature highlights that one of the factors that may explain the large audit firms enjoy a competitive advantage in the market is related to firm size of audit firms by the existence of economies of scale. Also, the results of the investigation indicate that for scholars of the audit market has been important to analyze the way in which can be an empirically testable relationship between firm size and cost leadership strategy. Also, accounting researchers have distinguished the existence of economies of scale resulting from the business size of audit firms as one of the factors explaining the high concentration of the audit market. In this sense, the methodology of the audit market analysts have been used to empirically test the relationship between firm size of large international firms and its leadership position in the market. some estimate of the average cost curve then analyze the functional form of this curve . However, in the absence of sufficient information on the cost structure of audit firms, accounting researchers to determine the existence of economies of scale based on the size of the large audit firms have been using the survival method devised by Stigler (1968).

This method can reveal the existence of the optimum size of audit firms in the audit market, based on the number of audits performed, so that these large audit firms may be at the minimum point of the average cost curve. Therefore, this method allows survival to accounting researchers solve the problem of determining the optimum size of the large audit firms, classifying them by size "number of audits" and analyzing participation on the activity total for each section of a given size. If the participation of a particular stretch decreases over time, "according to the method of survival 'it can be concluded that the size is relatively inefficient, increasing inefficiency decreased with increasing participation section.

The application of this method to determine the optimal size, is describe the number of audits carried out by the various auditors analyzed, and analyze the evolution of the market share enjoyed by. Once the optimum size of each audit firms analyzed, if

verified based on this methodology exists an empirical relationship between market share and size, then the accounting researchers have an indirect indicator of the existence of a minimum efficient size in the audit market and therefore can be determined to what extent the concentration of the audit market and the relative position of the various large international firms in the same may come explained by the possibility that they develop a cost leadership strategy through the exploitation of economies arising from firm size.

5. METHODOLOGIES USING STRUCTURED BY AUDIT FIRMS

Because the use of structured methodologies for auditing, research shows that their use may also be a factor enabling, them to audit firms achieve a competitive position by reducing average unit costs, as it is presumed that the recurrent use of proven methods and procedures should, in principle, lead to a reduction in costs. However, note that this is questionable, for the reason that the same methodology can not necessarily apply the same level of effectiveness at two different companies audited.

International literature in accounting research indicates that the use of different technology variable audit firms can be a means through which explain differences in efficiency between them. In principle it is complex to justify the status of various firms in the market for audit services is due to the use of a different technology. However, as evidenced in the following paragraphs, there is no uniformity regarding the technological process that all firms are in the market for audit services. On the other hand, it is difficult to argue that technological innovation does not produce benefits that entail a change in systems and manufacturing processes and increases in business productivity, and thereby produce both a reduction of production costs.

In regard to the object of our study are closely related to two issues which have been debated for decades, theorists of industrial organization in the absence of conclusive empirical evidence (Bueno and Morcillo, 1993).

First, there is an open debate about the origin of technological innovations considering whether these come only from large companies; secondly, there is no clear evidence on whether it should exist, highly concentrated market structures, such as monopolies or oligopolies, that the companies find sufficient incentives to promote technological change and improvements in social welfare. Regarding the first question, the firm size becomes an element of fundamental importance to ensure a rapid rate of technological change. Only large companies can have sufficient financial resources to devote to research and development to support the risk posed by any innovation. This leads to the consideration that only large companies can maintain a favorable towards technological innovations attitude (Kinney, 1986). The second issue is certainly more controversial. The argument by which argues that a concentrated market is a necessary condition for a technological breakthrough occurs condition is justified by the idea that in a framework of oligopolistic competition is difficult to compete on price being much more likely to compete in processes. So then, if we consider that the existence of concentrated markets is a source of technological progress and therefore increases social welfare, we can then consider a structure-based competition in an oligopolistic model might become desirable from a socioeconomic perspective since increases in welfare outweigh the losses that would occur for control of the market by a few large companies.

Our mission is focused exclusively on the analysis of how technological innovation in audit firms may confer a competitive advantage on the firm. It can be seen that the large international audit firms have in recent times made certain changes in its production process. These changes are aimed primarily at achieving greater structuring and formalization of the audit process, recognizing it as an integrated process and not as a mere isolated chain procedures. A structured audit methodology is a systematic development of function approximation, which is characterized by the requirement of a logical sequence of procedures, decisions and documentation stages. This means that there is an integrated audit policy determines some analytical tools that assist the professional auditor in forming his opinion on the audited company (Cushing and Loebbecke, 1986).

The possibility that the audit function can use the structured technology and expert systems has been controversial within the doctrine, because while some authors consider that the audit process can be conceived as a problem well structured, analytical and programmable (see , among others, Sullivan, 1984; Ashton, 1983). By contrast, other authors argue that this process, given the specific characteristics of each audited company cannot be abstracted from the judgment of the professional auditor (Bamber and Snowball, 1988), unable to be a programmable process.

Regardless of this controversy, on which we will not stop , it seems clear that certain situations that favor the application of structured audit process technologies are given , especially the need to control audit risk and labor costs team develops it. The aim of our study is to analyze to what extent the structured nature of the audit process may involve greater efficiency in the development of the same, which would mean the completion of the audit service in less time and at lower costs. On this point Newton and Ashton (1988) emphasize that the development of structured methodologies has inherent efficiencies. For this reason, customers may prefer to choose auditors who have this kind of methodologies. In particular, we refer to the benefits that can be derived from a structured process execution audit on monitoring service costs approach. This would allow us to propose a relationship between market structure and the use of different technologies by firms (Newton and Ashton, 1988; Loebbecke and Cushing, 1986). This relationship may allow auditors to test whether using structured methodologies in the development of the service, enjoy a competitive advantage by exploiting a strategy of cost leadership. The introduction of structured technology, mainly based on the use of expert systems, can produce a more efficient service provided, reducing the time in service execution and training of professional judgment and the efforts required to develop audit procedures and increasing the quality of it , is that, reducing audit risk and increasing safety auditor's judgment (Williams and Dirsmith, 1988). According to Willingham and Ribar (1988) most efficient allocation of resources by the use of structured methodologies in the audit process is due to several factors. First it increases professional satisfaction auditor as they are freed to perform routine tasks, making work more interesting and the time fieldwork was reduced. Both aspects result in increasing the quality of service provided. Furthermore, the formation of the auditor's judgment on the situation of the audited company can be made without his personal presence. Structured methodologies facilitate uniformity of documentation and audit roles. Increase efficiency by reducing training costs of staff by reducing the level of experience needed to run the audit work (Dillard and Bricker, 1992). Increase the consistency of the audit process and reduce the inherent risk of the formation of the

judgment. Reduce the number of auditors required to meet the same amount of work, thus reducing the necessary labor cost for an audit (Wattkins O'Leary, 1989).

Empirical studies on the determinants of the concentration from the point of view of audit firms have been analyzing the correlation between the position of market-leading audit occupying large international firms and their behavior towards the use of structured methodologies, assuming that not all audit firms use the same methodology in the development of the service. For this reason, Kinney (1986) and Morris and Nichols (1988), researchers rated the large international firms by type of audit methodology used, as follows: Deloitte and KPMG were classified as to the type of methodology used as highly structured. Ernst & Young has been called a kind of intermediate methodology and finally PriceWaterhouseCoopers was rated a low rate methodology. So then, the methodology used to test empirically whether large international firms through the use of structured audit methodologies tend to increase their market share. To do so, scholars audit market relate, the type of methodology used by each of the major international firms with market share ever and it evolves throughout the study period analyzed.

Derived from the results discussed methodological step before accounting researchers can then conclude on the existence of the relationship between the audit methodology used by each of the major international brands and its market share reached, and therefore they may also conclude on whether there are differences in efficiency between large international firms from the use of structured development and implementation service that eventually help to explain the reasons for the concentration in the audit market technologies.

6. ELECTION OF AUDITOR

The analysis of the structure of the audit market and the empirical evidence that demonstrates the existence of a high concentration of audit services for the Big 4, has generated great interest in accounting doctrine to find an explanation of the nature competition in the audit market and the factors that determine it.

In this regard, analysis of the choice of auditor is clearly a factor that may help explain the concentrated structure of the audit market, so the study of these aspects is of great importance to understand its operation. The starting point of the studies that develop these aspects, considers that the concentrated structure of the market for audit services does not arise by an arbitrary decision process, but there are strong economic reasons for the behavior of firms and market structure that such behavior results. The decisions by choosing an auditor of companies, is the result of a rational process, whose explanatory variables have been subjected to considerable research in the international literature over the past decades.

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As the literature notes, subject to audit study from the perspective of market forces attention to the applicant of the audit, the supplier of the same and the attributes of the offered service. These factors directly influence the current configuration of the audit market (Simunic, 1980, Chow and Rice, 1982; Schwartz and Menon, 1985; Palmrose, 1986; Simunic and Stein, 1987; Craswell, 1988; Francis and Wilson, 1988; Johnson and Lys, 1990; DeFond, 1992, Beattie and Fearnley, 1995; Krishnan and Stephens, 1995, Wilson et al, 1995; Garcia Benau et al., 1998, 2000; Ruíz and Gómez, 2003).

The theoretical framework for the study on the choice of auditor, is classified into two study groups: On the one hand are studies that consider the provision of audit by itself is not likely to be able to differentiate mainly due to the regulation of its rules and procedures, making it the fare audit the condition for the choice of auditor factor, and on the other hand, we find empirical studies that consider that there are qualitative aspects in the provision of audit allow differentiation between different bidders. In this case, the price of the service will not be decisive in the choice of auditor.

The first of the two study groups, attend to the price of audit services, starting from the premise that in the audit market there is a high homogeneity between the different providers that provide the service. This means that the applicants do not require different qualities or does not perceive. From this view, market performance, in terms of the choice of auditor, would be explained only by differences in prices, so that a number of studies have attempted to empirically test the existence of different prices to different bidders attending and studying if this explains the choice of the same.

Among such studies can distinguish those who have undergone empirical testing behaviors oriented predatory pricing in the audit market, especially the phenomenon of auditing to offer prices below costs as a means of audit get clients to which this policy has been called "lowballing" (DeAngelo, 1981; Kanodia and Mukherji, 1994; Dopuch and King, 1996).

If he can demonstrate the existence of systematic behavior in the oriented offer the service at prices below cost audit would show that the supply meets the demand audit prices, ie market, would clear that the decision model of auditor choice is conditioned by service prices. In this regard, a number of empirical studies in the United States (Simunic, 1980), Australia (Francis, 1984) and the UK (Pong and Whittington, 1994) test the existence of predatory pricing policies and the choice of those auditors that offer delivery their services at lower prices.

Another type of studies in which the price of auditing and auditor choice, which are closely related to the predatory policies are linked. They hypothesized that these

policies require increased audit efficiency, since otherwise the auditing firms could not stay in the market is established. In the work to which we refer has studied the possibility to act at lower determining costs, and the choice of auditor, subjecting contrasting certain factors that may occur in firms audit to explain his performance better efficiency conditions. Among these factors we can highlight the economies of scale, economies of scope and certain actions followed by the various audit firms.

Among the studies published in the international literature that focus on analyzing whether or different audit firms can exploit economies resulting from their business size, economies of scale as a means of explaining differences in efficiency include the Palmrose (1986) and Danos and Eichenseher (1986). They have proven the existence of economies of scale in the U.S. audit market, which means that high market shares in favor of the big international audit firms ' Big 4 ' are explained because they operate at lower costs, aspect it turns out to be consistent with the hypothesis that the choice of auditor is determined by the price of the service. The positive effect that occurs in the demand for audit services to audit firms is large due to the existence of a major component of fixed costs in the course of the audit, so that the higher the retail customer base be the average cost of the audit and, therefore, the greater the possibility that the large international firms to offer their services in a position lower than other suppliers in the market prices. Studies that have attempted to test the existence of economies of scope, based on the assumption that the same occur when the overall cost of production of certain goods or services is less than the cost of producing them when production takes place separately. In auditing, the existence of economies of scope is based on the possibility that audit firms to bid jointly several services such as auditing, consulting, tax advice, etc. The argument is that the audit process generates a high knowledge about the business of the client company, which may exceed that necessary for an audit, which enables this extra knowledge can be used by the firm to offer services without raising prices excessively its service. In this regard , several studies have shown that the choice of auditor is explained by economies of scope; among them include the work of Simunic (1984), Beck et al. (1988) and Turpen (1990).

The last group of studies that explain the choice of auditor for reasons of price, considering that not all auditors operating in similar conditions of efficiency due to the particular way in which the audit work performed. Kinney jobs (1986), Kaplan et al. (1990) and Mutchler and Williams (1990) have shown that the pressure of competition, the need to control labor costs and the need to reduce audit risk are factors that cause audit firms make efforts to improve the audit process through the use of structured methodologies, which enable the development of work in less time and with greater accuracy. This produces a positive effect on audit prices that can offer such audit firms existing empirical evidence showing that those audit firms that use structured methodologies obtain a greater number of customers.

The second group of studies or research line has been used in the international literature considers unlike the lines centered on the price of the service, which enables the audit market differentiation service according to their quality. Under this premise the applicants perceive audit service offered different qualities, why be elected those auditors who offer the required level of quality.

The underlying argument to explain the existence of a heterogeneous demand for audit quality is explained in response to various situations, such as high agency costs ,

asymmetric information, etc. . , Involving certain companies, to address such situations they need a high quality audit, because this is a measure of the reliability of accounting numbers, so choosing a high quality auditor means greater reliability of accounting information disclosed. The research tries to test that auditor choice is motivated by the quality offered by it, has focused on describing a number of scenarios where it is presumed the need for high quality audits, inferring, through empirical tests that in such scenarios are chosen those that offer higher quality auditors in their work. The design of these studies lies therefore in the definition of a scenario where audit quality demand, and in the a priori definition of what the auditors are offered quality audits. This has been assuming a definition of quality based on two parameters such as competition and professional independence. Given a scenario in which supposedly quality audits are required, demonstrate that the choice of auditor is explained by the attribute of quality product when in this scenario are elected auditors who are considered to offer quality audits. However, in these studies as a major problem is to define auditors that offer quality services arises. Therefore match the assumption that the large audit firms often have more professional training and also given its larger customer base has, can withstand the pressure from their customers and maintain an independent attitude to their interests; thus, the size of the auditor and the brand name of these, derived from the reputation they have with these large firms constitute surrogate through which it intends to infer the differential quality offering these auditors (Simunic and Stein, 1987; Craswell et al, 1995; DeFond et al, 2002; Ireland and Lennox, 2002; Who audits America, 2003).

The choice of audit quality, namely the choice of large international firms currently known as the Big 4 has been proven in two scenarios: Scenarios where high agency costs and scenarios where it will produce the launch of stock market shares are given. The first scenario focuses on changing agency costs of the company caused by the increase in dispersed ownership, capital gains or obtaining additional debt, these scenarios where you need quality audits and therefore choosing an auditor to bid a distinct level of quality in the service provided. Studies published in the international literature, such as Firth and Smith (1992), Abdel- Khalik (1993), Clarkson and Simunic (1994), Francis (2004), Fuerman (2005), Fan and Wong (2005), Aksu et al., (2007) and Vermeer (2008), demonstrate the hypothesis in the sense that there is a demand for quality audits, to be contrasted empirically that firms that take place in the above scenarios highlighted consistently choose to major international firms, better known as the Big 4. The empirical study we are presenting in this chapter we consider that it is located in such scenarios where high agency costs are given.

Other studies focus on the launch of a package of shares of stock and to ensure a maximum price, use auditors who offer high quality service delivery as a means to reduce the uncertainty of future investors. Among this type of empirical studies we highlight the work of Simunic and Stein (1987), Balvers et al. (1988), Beatty (1989), Menon and Williams (1991), Hogan (1997) and Pittman and Fortin (2005).

Finally, as regards the analysis of auditor selection process based on the differential quality of service provided can be distinguished in the literature a number of empirical studies such as Mock and Samet (1982), Schroeder et al. (1986), Sutton and Lampe (1990), Theo and Wong (1993), Beattie and Fearnley (1995) and García- Benau et al. (1999), (2004), intended to infer, through surveys and questionnaires on what quality attributes perceived by individuals when choosing an auditor. Notably no part in these

studies a priori definition of audit quality, nor to graduate as professional auditors audit suppliers of various qualities, but is based on the study of the perceptions of individuals on attributes of the audit.

The international literature indicates that the audit service has some unique characteristics that make it different from other professional services because of its mandatory nature and deep regulation that affects you, ie, certain companies, especially those that most interest for society, are required to submit their financial statements to the review process involved the audit. The obligation of certain companies submit their financial information to the control of the audit is justified from a policy perspective because it is believed that through this activity better informed and organized society, these aspects are possible that can increase overall welfare thereof.

Furthermore and although hiring the audit service can be voluntary on the part of any entity, the reality is that the vast majority of defendants audit services comes from contracts implementing mandatory audits of annual financial statements. So then, you may have a situation where certain companies choose auditor should not perceive the need to hire after the audit service voluntarily. If so, in principle, it is assumed that the auditor choice process itself will have the greater relative importance to the type of auditor necessary because the absence of a stimulus to domestic demand for the audit, this would lead then, that in view of the obligation to hire the service of independent audit firms could not see any difference between the various bidders.

In this sense, the process of choosing auditor simply comes down to the simple fact anyone hire an auditor in order to meet its obligation, and in that case, the most rational solution for certain companies, it seems that is, hiring auditor offering the service at the lowest possible price. Moreover, the practice of the audit of the financial statements of companies is heavily regulated both by technical standards issued by the organized profession, as well as the procedures and other legal requirements imposed by the supervisory bodies in relation to their own implementation and that the substrate is performed, the financial information. For these reasons and based on the fact that the audit is a professional service under a permanent regulation and considering that all bidders audit service's properly applied, can then hypothesize that there is little ability for different auditors provide the audit service differently, or at least that there is less differentiation capacity if the service would be provided in an environment with little regulation. Based on this premise, the rational choice argument of certain companies to hire compulsory audit and to the reduced possibility of finding differences between different service providers audit, the auditor would be the choice that offers the service at a lower price possible.

As a counterpart to what is considered by the studies mentioned in the previous paragraph, the international literature also points to a second group of scientific studies on audit market believes that the audit service is not homogeneous. This is to say that their applicants can differentiate the service provided by different auditors, for the reason that they perceive the existence of different qualities. Thus, the work-based service differentiation audit, describe different scenarios in which their applicants require the hiring of a particular audit, ie an audit with a spread of quality (see, among

others, Simunic and Stein, 1987 , Francis and Wilson, 1988; Beatty, 1989; DeFond 1992; Sutton and Lampe, 1990, Beattie and Fearnley, 1995).

One of these scenarios is comprised of companies where high agency costs occur, such as companies that have a dispersed ownership. In these cases, accounting researchers have focused on analyzing the behavior of certain companies for their corporate characteristics might expect superior service, ie they require, their own corporate characteristics of these companies will be the determinants of the benefits they can get a quality audit (see Francis and Wilson, 1988; DeFond 1992; Agrawal and Knoeber, 1996, among others).

In corporate characteristics that have generated more attention in the international literature are agency costs that occur within companies. Since Jensen and Meckling (1976) argued that the audit requires special attention to control agency costs, some research has been aimed at analyzing how the nature of these agency costs can explain a distinct demand for quality audit and therefore the choice of a particular auditor. Also, the international literature suggests scenarios as presented in those companies first launch to stock trading shares. In these cases, the literature pays attention to the type of auditor chosen by these companies, revealing in their work, preferably selected companies to large international firms for their reputation and image. Thus, they can serve as a means to reduce uncertainty among potential investors, and thus ensure a way out of the financial markets in the most favorable conditions (Menon and Williams, 1991; Simunic and Stein, 1995; Hogan, 1997).

Finally, the international literature has also been collecting various works in which accounting researchers instead of defining a priori the scenarios in which a certain audits with a spread of quality demanded leave it to its own audited companies which reveal what are the attributes that define the concept of quality. In this type of study accounting researchers within the frame might be called behavioral theory or signal (Mock and Samet, 1982; Schroeder et al, 1986; Sutton and Lampe, 1990, Beattie and Fearnley, 1995; Butterworth and Houghton, 1995).

7. CONCLUSIONS

Studying the behavior of the audit market is one of the most relevant research in the area of audit issues. The reason is that, at the international level, a similar behavior between audit firms and between audited companies, which put the Big 4 and the market's leading companies in the world are observed. In this work, done from a theoretical and analytical perspective, the main factors that can lead to understanding why the audit market is oligopolistic market behavior are studied.

The study is therefore a study of market behavior. All market studies, are explained from the point of view of demand audit service from the point of view of the service offering; both approaches are complementary and are good indicators to understand the strong presence of the Big 4 and their market power. Both perspectives have a clear impact on the market and define the structure of that market in the world. Clearly, as this chapter addresses the issue analyzed from a theoretical point of view, it is difficult to add other issues to explain behavior in a particular country, which undoubtedly also influenced, among others, the implementation of the audit in that country, the prestige of auditors and existing measures against monopolistic behavior.

Thus, the study we made of the literature indicates that among the strategies followed by the Big 4 and the differences from other audit firms to capture market stand out clearly: the search for industry specialization economic activity, the sheer size of the audited companies, the implementation of economies of scale and the use of structured audit methodologies. Meanwhile corporate clients choose to Big 4 because looking at them: reputation, brand name and large size that makes most internationally.

In this sense, we want to end this chapter without noting that efforts are underway to achieve a regulatory audit services market with increased competition. To date none of the measures that have been suggested have had a real effect on competition, persisting oligopolistic situation outlined above. No clutch, some of the measures being taken may, in the medium term, interesting effects such as network support auditors who makes small and medium audit are made to form what is called a network to compete power somehow, with large audit firms.

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