

DEREGULATION OF PROFESSIONAL ACCOUNTING SERVICES IN THE UNITED KINGDOM: UNDERSTANDING THE EFFECTS OF PRICE COMPETITION

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ABSTRACT

Spurred by deregulation, the needs of professional service firms have changed dramatically over the past few decades. These changing needs have led to the use of business concepts previously avoided by such firms. As previously regulated industries have become more competitive, professional service firms have begun to rely upon services marketing concepts to maintain and/or strengthen their position in a widely expanding competitive arena.

This paper focuses upon the use of marketing concepts and tools in the accounting profession. Specifically, the association between pricing and deregulation in the market for audit services in the United Kingdom is examined. Historically, customer-oriented pricing concepts, as understood by marketers, have been avoided by professional accounting services. Accounting firms tend to view their markets from a production viewpoint rather than the customer's viewpoint. That is, the accounting firm's price has historically been based on the cost of the service.

Beginning in the 1970s, regulators claimed that professionally imposed restrictions (such as those prohibiting competitive bidding) reduced competition and allowed well-known accounting firms to exercise oligopolistic power in the pricing of their audit services. As a result, many countries moved to eliminate these regulations (e.g., the United States, the United Kingdom and Australia). In 1984, the allegedly anti-competitive, professional regulations that restricted competitive bidding in the United Kingdom were eliminated.

The pricing of services is a nebulous area and, in the accounting industry, is exacerbated by the regulations governing the industry. In light of allegations that competition led to a decline in audit quality and calls for re-regulation, it is important to understand the effect of deregulation on the pricing of accounting services. As such, this research examines the pricing strategies of Tier I accounting firms in the United Kingdom immediately preceding the 1984 deregulation. Specifically, this study investigates the association between professional regulation and the Tier I fee premium. If there is an association between professional regulatory guidelines and audit fee premiums, then re-regulation would occur at the cost of higher audit fees. Alternatively, if professional regulations are unrelated to audit fees, then re-regulation may be less costly than regulators' arguments might suggest.

The results provide avenues for both practitioners and researchers to pursue in an effort to better understand the intangible nature of audit services. From a practical viewpoint, a better understanding of the accounting firm's marketplace will be necessary when it comes to pricing policies. As clients "shop around" by examining both service and pricing, accounting professionals will be hard-pressed to understand the (potential) client's perception of service value. This moves the professional accounting firm away from traditional cost-based pricing to customer-oriented pricing. From a research perspective, future accounting-based research should delve deeper into the effects of regulation—specifically, a major research question should focus upon, "Does audit quality decline with deregulation?" Measurement development in this area will have to identify appropriate customer-oriented, as well as professionally-oriented, determinants of audit quality. Marketing's contribution in this research will be substantive as marketing has contributed greatly to the understanding of perceived value and quality determination and differentiation. Assuming that pricing is a key variable in firm selection process, marketing research that grasps the unique aspects of professional service providers will be necessary for audit firms to move to customer oriented pricing approaches.