Model of Core Competence Ranking in Audit Business

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Research of core competences as a theoretical construct has picked up steam just in approximately 2002. Problems in defining the competence of a company are predetermined by the fragmentary pattern of research and the lack of interdisciplinary approach: competence as “the universal topic is studied in many academic fields” (Gao, Li, & Clarke, 2008). Besides, competence is independently studied by representatives of different disciplines as well as different science trends, each of them putting accents according to their scientific interests. Thus, the answer to the question “What is competence and what it is not?” is not as simple and clear as it may seem at first sight. The lack of clear and standardized terms stops further research in this field of competence measurement, management, etc.

The paper analyses the term of a core competence and its interpretations in an audit discipline. The content of competence needs top-level executives, profiles of their strategic consultation, organisational training faces with respective corrections. In other words, classic strategic management is certainly not disproved; just all of its fields should be verified and modelled through the prism of risk and crisis management (Banyte, 2008). Framework for International Education Statements (FIES) allows looking at the audit risk in terms of competence assessment, that is, creates preconditions for competence assessment and improvement of theoretical fundamentals of the audit risk management algorithm (Staliuniene, 2009). On the basis of such fundamentals, the concept of competence is defined, standards of universally accepted “good practice” are determined in the fields of training and refresher courses of professional accountants and auditors as well as the requirements for the competence of audit professionals.

The standard mentioned explains the concept of competence as the demonstrated ability to perform relevant roles or tasks to the required standard. Competence may be assessed by a variety of means, including workplace performance, workplace simulations, written and oral tests of various types, and self-assessment. Such assessment will give just an episodic conclusion but will not ensure competitive advantage, which only proves the status of audit as a knowledge-intensive organisation (Rajala & Westerlund, 2005, Mullen & Doloreux, 2007, Staliuniene, 2009). The question is how to determine what competences are in order in particular situation in audit business while trying to match expatiations of customers, effectively using available resources and gaining the benefits of external opportunities.

This study aims to conceptualize the core competencies ranking model. The model presented and verified in this paper is based on integration of BSC to ERM (COSO) models.

Results of the research let us maintain that the audit organisations should pay more attention to the immediate pursuit of the core competences. Acceptance and continuance of the relationship with the customer remain the core competence.

Keywords: audit, resource based management, competence bases management, core competences, features (value prepositions of audit services, knowledge-intensive business services (KIBS)

Introduction

In the nineties of the last century, a resource-based view was introduced in the strategic management literature. The supporters of this view assert that the resources and capabilities of the organisation but not the competitive position in the market play a key role in the development of competitive advantage (Grant, 1998). Based on typology introduced by Grant (1998), the resources and capabilities can be tangible, intangible and human. Though all these groups of resources are important for ensuring the success of the organisation activity, presently the largest attention, both in practice and theory, is given to human resources (Ulrich & Lake, 1991, Pfeffer, 1994; Wright & Dunford & Snell, 2001, etc.).

Jefremov & Chanykov (2002) having analysed changing business conditions concluded that organisations start paying more and more attention to internal resources, which could be of value for the development of business space, and that the origins of such an organisational model were first seen 10 years ago known as a school of resources, opportunities and competences.

On the other hand, the old classical schools of strategic management in most cases are paying attention to competitive position of organization in external environment and are unable to explain the phenomena and the role of internal factors such as resources, processes and competencies (Zakarevicius & Zuperkiene, 2008). In future the role of resources and competencies will become more significant in the context of business-to-business and services business market. However, such an approach is exclusively internal and does not involve external factors. Therefore the cornerstones of the business-to-business school scientists widely applied in the service management are cooperation, exchange, addition of core competences, including the value to the customer (Walsh & Beatty, 2007), Peppers & Rogers, 2007).
As a result, a natural scientific discussion arises both in respect of identification of the research object and objective assessment thereof (Prahalad & Hamel, 1990). Here we can finely use such terms as “significance”, ranking, however, since 2000, scientific discussions about “core” processes, “core” competences have also begun in Lithuania: Kersiene & Savaneviciene (2005), Vasiliauskiene & Snieska (2008), and Boguslauskas & Kvedarienė (2009). According to them, “core competence” can be defined as communication, involvement and a deep commitment to working across organisational boundaries” to be assessed on the basis of three criteria: value to customer’s benefit, limited resources and competition opportunities. If the company has made an outsourcing decision and transferred a part of the services, the executives and the staff can accumulate more resources and pay more attention to the core competence.

So why does the organisation need to be aware of core processes, core risks and core competences? The paper presents a scientific discussion about the integration of core competences in the context of the theory of resources of the mentioned organisational constituents.

The research questions of this paper could be formulated as follows: Does a set of core competencies depend on the features of audit services (value components), available resources and potential opportunities in the market in an audit business organization? In what way core competencies should be ranked in order to meet specific need of customers while effectively using available resources and gaining the benefits of market opportunities?

The aim of this paper is to conceptualize and to verify the model of core competencies ranking based on features (value prepositions) of audit services, available resources and potential opportunities in the market in an audit business organization. The object of this research is core competences of audit organization. Research methods are the analysis and synthesis of scientific literature, research, modelling, processing of matrix results, and ranking.

Theoretical background and development hypothesis are presented in the first part of the paper. Research method and measures used are grounded in the second one. The third part is for comprehensive analysis and interpretations of the results.

Theoretical background and model development

This study is based on two management theories namely resources based and competence based strategic management. The main theoretical assumptions would be discussed in the context of audit services business. Those theories have similar point of view that resources and capabilities of the organisation but not the competitive position in the market play a key role in the development of competitive advantage. This paper is based on the assumption that each organisation is a developer of its external environment and therefore renewal of the “core” competences” will always have an impact on internal processes, enable correction of the strategy, resources and, finally, will form self-awareness of the customer.

The context of audit services business means that features of audit services, available resources of audit organization and external opportunities are the drivers of core competencies intended to help in reaching organizations goals. This means that in order to gain benefits of external market opportunities core competences could be predicted and developed.

Conceptualization of competencies and resources in audit business Manifestations of competence-based strategic management (Vernhout, 2004) are perfectly recognised in the context of audit organisation learning. The author identifies 8 phases, upon consecutive fulfilment whereof the extent of achievement of the goals of organisation can be determined, and describes appropriate instruments and the place of core competences in the hierarchy of resources (Figure 1):

![Figure 1. Place of core competences in the hierarchy of resources (Arjan Vernhout, 2004)](image)

Skills are special forms of (professional) capabilities, usually embedded in individual persons/s or groups/teams, which are useful in specialized situations or related to the use of specialized resources.

Capabilities are repeatable patterns of action in the use of assets to create, produce and/or offer products to a market. Because capabilities are intangible assets, the uses of tangible assets and other kinds of intangible assets, are determined by that capabilities being considered to be an important special category of assets. Capabilities arise from the coordinated activities of groups of people who pool their individual skills in using assets to generate an organisational action.

Competence is the ability to apply assets in a coordinated way (interaction and integration of capabilities) in order to achieve the key goal (Framework for International Education Statements (FIES)).

Jefremov & Chanykov (2002) add to this that skills and capabilities are the basis of competence, but capabilities and skills do not always lead to a competence by definition. For this research, marketing, management information and production are necessary. And the capabilities themselves are not enough to bring new and successful products to the market. This is only possible by interaction and integration between them. If this coordinated interaction and integration of capabilities leads to the achievement of a key goal (e.g., successful introduction of new products into the market) then these
capabilities lead to competence. Thus, competence is related to processes and interaction between the assets in an organization and lies generally embedded in cornerstone organisational units, such as sales, marketing, logistics or production (Lakis, 2008).

Competences may be derived from different kinds of knowledge within an organization. Some competences appear to depend on “know-how” – practical, hands-on forms of knowledge gained through incremental improvements to products and processes (Kaziliunas, 2008). Other competences depend on “know-why” – theoretical forms of understanding that enable the creation of new kinds of products and processes. Other forms of competence seem to come from an organisation’s “know-what” – a strategic form of understanding the value creating purposes to which available “know-how” and “know-why” forms of knowledge may be applied (Edvardsson, Holmlundb & Strandvik, 2008).

In order to complete the understanding of the concept of competences, several descriptions are combined. Different forms of competence arise from different levels of activity within an organisation. Some organisational competences seem to arise largely from the capabilities of an organisation to create and produce specific kinds of products. Other competences seem to derive primarily from the abilities to organize and coordinate assets in innovative and effective ways. Yet other competences seem to depend mostly on top management’s ability to create/imagine new strategies for creating value in markets. (Urbanskiene, Zostauniene & Cheryptaviciene, 2008). Therefore, the primary goal is to use the business process modelling framework developed by American Society for Quality for the classification of audit business processes. According to this classification, business processes can be either functional or structural, or auxiliary. Of course it should be noted, that they do not reflect the consistence of the audit business.

<table>
<thead>
<tr>
<th>Value propositions (services features) in audit services</th>
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<tbody>
<tr>
<td><strong>X</strong>.Audit service characteristics* (Customer value (benefit) prospects)</td>
</tr>
<tr>
<td>x1 Independence</td>
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<tr>
<td>x2 Confidentiality</td>
</tr>
<tr>
<td>x3 Professional competence (skills required for work with audit software, professional competence of employees)</td>
</tr>
<tr>
<td>x4 Strength of the user and provider interaction (contacts)</td>
</tr>
<tr>
<td>x5 High work intensity (communication, behaviour, speech, actions)</td>
</tr>
<tr>
<td>x6 Reliability</td>
</tr>
<tr>
<td>x7 Extent of tailoring of the service for individual needs of the user (wording of wishes, mood for involvement, knowledge about the duration of the process)</td>
</tr>
<tr>
<td>x8 Service accessibility (location, sufficient number of employees, attention to the customer’s businesses)</td>
</tr>
<tr>
<td>x9 Customer’s involvement</td>
</tr>
<tr>
<td>x10 Recommendations do not get obsolete (are given directly to the managing personnel)</td>
</tr>
<tr>
<td>x11 Innovative knowledge is shared together with the methods of adaptation, therefore they are faster put into practice</td>
</tr>
<tr>
<td>x12 The feedback enables correction of knowledge, putting thereof into practice (experience).</td>
</tr>
</tbody>
</table>

As discussed by Boguslauskas & Kvedariene (2009), the core competences can be defined as certain knowledge, which cannot be equated to processes (activities), since core competences being a set of knowledge, skills, collective learning and other attributes just help to form and maintain the core processes. Therefore it is very important to distinguish between the business strategy and core competences. Thus, in order to rank the process as the core one it must necessarily be based on core competences.

Based on service management theory and features value prepositions of audit business characteristics of audit services were determined and varieties of strategic opportunities in audit business were listed (see tables 1 and 2).

<table>
<thead>
<tr>
<th>Variety of strategic opportunities in audit business</th>
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<tbody>
<tr>
<td><strong>Y. Resources (Internal prospects)</strong></td>
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<tr>
<td>y1 Time</td>
</tr>
<tr>
<td>y2 Experienced employees</td>
</tr>
<tr>
<td>y3 Audit technology (know-how)</td>
</tr>
<tr>
<td>y4 Communication</td>
</tr>
<tr>
<td>y5 Material facilities</td>
</tr>
<tr>
<td><strong>C. Competences (Learning prospects)</strong></td>
</tr>
<tr>
<td>c1 Performance of special (complex) audit engagements</td>
</tr>
<tr>
<td>c2 Proper monitoring of audit quality</td>
</tr>
<tr>
<td>c3 Development of the audit report that is supported by sufficient and appropriate audit evidence in compliance with the applicable independence requirements</td>
</tr>
<tr>
<td>c4 Acceptance and continuance of relationship with the customer</td>
</tr>
<tr>
<td>c5 Assignment of engagement teams, ensuring the collective capabilities and competence to perform the engagement and issue an audit report</td>
</tr>
<tr>
<td>c6 Direction, supervision and performance of the audit engagement in accordance with professional standards and regulatory and legal requirements</td>
</tr>
<tr>
<td>c7 Consultation, review and discussions about work performed</td>
</tr>
<tr>
<td><strong>Z. Opportunities (Financial prospects)</strong></td>
</tr>
<tr>
<td>z1 Competitive advantage due to more effective work methods employed</td>
</tr>
<tr>
<td>z2 Application of customer loyalty instruments</td>
</tr>
<tr>
<td>z3 Personnel management</td>
</tr>
<tr>
<td>z4 Pricing solutions</td>
</tr>
<tr>
<td>z5 Application of strategy for non-acceptance of risky customers</td>
</tr>
<tr>
<td>z6 Application of reputation/brand management instruments</td>
</tr>
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</table>

Based on theoretical prepositions listed above it could be maintained that in order to gain strategic opportunities organization should measure characteristics of audit services and link them with value creation. From the points of view of recourse-based and competence-based strategic management theory it could be maintained that tangible and intangible resources should be ranked on strategic opportunities basis as far as organization is balanced when it succeeds to link its recourses for value creation. To that end, a model is formed functioning on the basis of the complex approach.

Stages of competence based management in audit business based on the concepts mentioned, the model of audit organisation functioning is developed based on distinguishing between the core competences. To that end,
characteristics – resources – strategy – competence. Have a consistent impact on each other – service environment of an IT organisation proves that matrices competence. An empirical study performed in the mentioned system of “the prism of activity” and the core assessment of the audit business system based on both the projections, development of a new model for the audit business system allowed the formation of new competences, which form the basis for the core processes verify an assumption on the possibility to identify the core competences characteristics (c).

opportunities characteristics (z) and learning & growth – internal process perspective accordingly matches – Wright, 2006) matches audit services characteristics (x); Nagumo & Barnby, 2006; Beasley, Chen & Nunez & Wright, 2006) matches audit services characteristics (x); internal process perspective accordingly matches – resources characteristics (y), financial – potential opportunities characteristics (z) and learning & growth – competences characteristics (c).

However, such a list does not ensure by itself the competitive advantage. Therefore, it is very important to find as objective as possible assessment system and try to verify an assumption on the possibility to identify the core competences, which form the basis for the core processes of the audit business.

In order to develop further methodology, this paper will be limited to the assumption that each organisation is a developer of its external environment and therefore renewal of the “core” competences will always have an impact on internal processes, enable correction of the strategy, resources and, finally, will form self-awareness of the customer. Basic framework enabling analysis of the audit business system allowed the formation of new projections, development of a new model for the assessment of the audit business system based on both the mentioned system of “the prism of activity” and the core competence. An empirical study performed in the environment of an IT organisation proves that matrices have a consistent impact on each other – service characteristics – resources – strategy – competence.

**Research method**

Logic of theoretical model is as follows:

1. the starting point is evaluation of features of audit service from customer point of view;
2. based on features of audit services for particular customer audit business organization is able to form a set recourses which are for the fulfillment of customers expectations;
3. on the other hand, resources should be evaluated in the context of long term strategy of the audit organization and opportunities;
4. further features of audit services and external opportunities are harmonized;
5. based on the results core competencies are ranked.

The above presented theoretical assumptions were checked by auditors (experts) by assigning to each of them the impact weight in a five-point scale, where 5 is very strong, 4 is strong, 3 is moderate, 2 is weak and 1 is possible. When preparing the initial data, the means values of the assessments were derived. However such an expert assessment does not present ranked core competences, so the method of matrix transposition and multiplication will be used to summarise the results obtained in the matrices:

**Initial data (already existing) – matrices YX, YZ, CZ.**

**Step 1.** Matrix XZ must be obtained. Matrix YX is transposed (by changing the columns into rows and vice versa) and matrix XY is obtained

\[
XY := YX^T
\]

Matrices XY and YX are multiplied by the counter of the given formula. Then the obtained matrix XZ1 is divided by the denominator of the formula, which is the sum of the columns of matrix XY. The following matrix is obtained.

**Step 2.** Matrix XC must be obtained. Matrix CZ is transposed and matrix ZC is obtained. The values in the counter of the formula are multiplied and the following matrix is obtained. Then the obtained result is divided by the denominator, which is the sum of the rows of matrix XZ and matrix XC is obtained. As we can see from the presented matrix XC, the competences have a strong (4) or moderate (3) impact on the service characteristics. Thus, in summary, we can state that the service characteristics can be resampled, however they will call for all competences, since it is difficult to identify the predominant ones. To that end, the assessment is continued in this paper without deriving the means of the responses received from the respondents. After performing the above described actions, the following XC matrix is obtained.

However, in order to assess the core competences of audit business, a sample study must be performed in the society of auditors. Again, from the theoretical point of view, there are discussions in the context of audit management about the existence of relationship between x, y, c, z elements as such. Thus, is there any relationship between the elements mentioned? What is the extent of the impact on the factors; is it possible to identify the core competences and to relate them to the processes? How will the system renew and will it really ensure the competitive advantage. Such assumptions are positively confirmed by scientific research and the results of research are presented in this paper.

This article does not aim to rank the competencies of Lithuanian audit business market. In order to illustrate the model reliability while ranking audit business competencies, 21 surveys were used. Respondents were auditors form different audit companies who were indoctrinated with the theoretical principles of the model and the rules while filling the questionnaire. Respondents filled three matrices YX, YZ, CZ which measured features of audit services, recourses and strategic opportunities.

![Figure 2. Theoretical model of core competence ranking](image-url)
The fourth matrix was calculated using mathematical instruments. This matrix evaluated ranks core competences which are driven based on features of audit services, recourses and strategic opportunities.

Transposition of the matrix using methodology of model’s Step 1 and Step 2 can be entered into the initial diagram (Figure 4):

\[ CX = X^T X \]

As we can see from the presented matrix CX, the competences have a strong (4) or moderate (3) impact on the service characteristics. Thus, in summary, we can state that the service characteristics can be resampled, however they will call for all competences, since it is difficult to identify the predominant ones. To that end, the assessment is continued in this paper without deriving the means of the responses received from the respondents. After performing the above described actions, the following CX matrix is obtained (Table 3):

As it is seen from the recalculated matrix CX, it is possible to identify the core competences by comparing them between each other according to the scores gained.

The core competences are those which get the biggest score. This means that those competences should get more attention than others. Besides this prime function of core competency ranking this model lets make intermediate decisions. This could be noticed in matrix scores. For example, x6 impact y2 in 870 score. This means that important audit service feature reliability could be attained developing experienced workers recourses. At the same time in matrix yz – y3 “audit technology (know-how)” recourses strongly impact z1 – “competitive advantage due to more effective work methods employed”.

Figure 3. Results of competence ranking in Audit business

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Figure 4. Matrix XC

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Table 3 The rank of core competencies

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<th>Competences</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptance and continuance of relationship with the customer</td>
<td>c4</td>
</tr>
<tr>
<td>Consultation, review and discussions about work performed</td>
<td>c7</td>
</tr>
<tr>
<td>Performance of special (complex) audit engagements</td>
<td>c1</td>
</tr>
<tr>
<td>Proper monitoring of audit quality</td>
<td>c2</td>
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<tr>
<td>Direction, supervision and performance of the audit engagement</td>
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Figure 3. Results of competence ranking in Audit business

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Transposition of the matrix using methodology of model’s Step 1 and Step 2 can be entered into the initial diagram (Figure 4):

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Conclusions

Based on the analysis of resource and competence-based strategic management theories, four groups of factors that take part in audit business organization’s value creation could be determined, namely characteristics of audit business services, internal resources, strategic opportunities and competencies. Those groups of factors interacting with each other are able to ensure value creation in audit business organization and achievement of strategic goals. Competencies in a particular audit business organization is shaped based on characteristics of services, strategic opportunities and internal resources. Based on this assumption, it could be maintained that different services characteristics demand different set of competencies and being different they are critical in a particular situation.

Based on empirical results, it could be maintained that competencies could be ranked using objective methods independent from subjective respondent view. In future more factors could be ranked in each group in order to link them with core processes of audit business organization form managerial point of view. This is an additional result of model usage.

Uncertainty lies in the question which of the competencies that score the maximum point could be assigned as core and which could be handled as maintaining competencies. This problem could be referred to future researches.

References


Santrauka


Apibendrinant mokslinę analizę, visgi reikia pripažinti, kad verslo sistema gali supanžinti keletą organizacijų kaip neatskiriamų dalių. Tačiau straipsnyje nutaria audito verslo sąlygų išorės vertinimą apibrėžti laikantis bendrosios koncepcijos vertės klientui nuostatos. Tuomet nebūtina tirti konkrečius kliento lūkesčių paketu, bet panaikina lūkesčių aiškų apibrėžti pagrindinį kliento lūkesčius remiantis paslaugų vadybos mokyklą.


Tyrimo rezultatai leidžia tvirtinti, kad audito organizacijos turi kreipti didesnį dėmesį į veiksmingos organizacijos vadybos metodus, kurie mažiau priklausančius nuo subjektyvių respondentų nuomonės. Tai užtikrina straipsnyje pateiktas modelis ir taikyti metodai.

Dar vienas modelio rezultatas – galimybė galutinio rezultato svarbą surašyti kiekvienoje veiksnų grupėje išskirtus veiksnius, siekiant vadybiniai požiūriu jų susieti su pagrindiniais procesais. Reikia pripažinti, kad lieka neapibrėžta, kiek iš daugiausia būtų svarbūs galimybës ir kompetencijų būtina priskirti pagrindinėms, o kurios išlieka tik kompetencijomis.

Raktai:
- rizikos įžvalga, pagrindinė (esmė) kompetencija, audito rizika, žiniomis imlios verslo paslaugos (ŽIVP), paslaugų vadyba.

The article has been reviewed.

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