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The commercialist identity of mid-tier firm auditors: A precarious balancing of priorities

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The commercialist identity of mid-tier firm auditors: A precarious balancing of priorities

Abstract

Purpose – This paper seeks to extend our understanding of how mid-tier firm auditors legitimise and institutionalise the logic of commercialism within their profession. This paper is responsive to research which shows how Big Four auditors have restructured the market and re-cast the relationality between the two logics to forge an identity which suits them commercially. Such research provides insight into auditor agency and intentionality, illustrating how auditors maintain and indeed grow their status and role within society.

Design/methodology/approach – Semi-structured interviews with audit executives situated in a strategically challenging regulatory context are interpreted through a theoretical framework developed from institutional complexity theory, coupled with the understanding that institutional logics are a socially constructed phenomenon.

Findings – Mid-tier auditors appear to be as commercially orientated as their Big Four counterparts, expressing the logics of professionalism and commercialism as highly complementary. In response to competitive pressures and the difficulty of replicating the multi-disciplinary practice (MDP) business model of the Big Four, mid-tier auditors present a competitive and contrasting identity as 'more devoted experts', using various legitimation techniques and 'heroic' representations. This identity representation is strategic, allowing them to forge a consistent and coherent 'collective identity defining story' designed to counter the 'versatile expert' identity of the Big Four and establish social legitimacy with their potential client base.

Originality/value – These findings contribute to our understanding of how mid-tier auditors are 'catching up' to the Big Four in the construction of their commercial business model. By shedding light on the rhetoric and 'identity experimentation' of auditors, our findings can aid legislators and regulators to exercise democratic control over the profession and promulgate regulations which better align auditors' interests with the public interest. As regulators encourage mid-tier firms to compete with the Big Four and lower supply concentration in the market, we believe the tensions inherent in the logics, as well as the strategic necessity for firms to represent themselves in a favourable manner, will become more prominent.

1. Introduction and context

Structural changes in the audit market in recent decades indicate an increased focus by the profession on its commercial agenda. Multiple mergers, occurring in the 1980s and 90s, consolidated the supply of audit services, forming what we know today as the 'Big Four' audit firms (Gerokos & Syverson, 2015). These firms then transitioned their business models by becoming 'multidisciplinary practices' (MDPs), offering a suite of services to clients other than audit (Cooper & Robson, 2006; Dirsmith, Covaleski, & Samuel, 2015; Greenwood & Suddaby, 2006). Together with these changes has been a growing concern over poor audit quality outcomes (e.g., Cooper & Robson, 2006; Dellaportas & Davenport, 2008; Lee, 1995; Power, 2003; Sikka & Willmott, 1995; Whittle, Mueller, & Carter, 2016). The continued occurrence of corporate scandals and failures, mostly involving Big Four firms, has fuelled allegations of conflicts of interest and driven regulatory intervention (Dowling, Knechel, & Moroney, 2018; Malsch & Gendron, 2011, 2013; Sikka, 2009; van Brenk, Renes, & Trompeter, 2020). Auditors stand accused of allowing their quest for profit (commercialism) to compromise their professional obligation to protect the public interest with high quality audits.

As regulators grapple to enact reforms which align auditors' interests with those of society, an important avenue of research is to understand how auditors continue to legitimise their commercialism and thus internalise and institutionalise this logic within the profession (Dermarkar & Hazgui, 2020; Guo, 2016; Malsch & Gendron, 2013; Suddaby & Greenwood, 2005). Auditor rhetoric surrounding commercialism, with its "canopy of legitimations" designed as "a protective cover" (Berger & Luckmann, 1966, p. 79), acts to resist regulatory reform and further entrench it as a constitutive logic of the accounting profession (Cooper & Robson, 2006; Dellaportas & Davenport, 2008; Dermarkar & Hazgui, 2020; Lee, 1995). Tension exists between the commercial and professional logics (Malsch & Gendron, 2013) and this perceived incompatibility creates further tension within the organisation and indeed the profession as a whole (Greenwood et al., 2011).

The literature understandably focuses on the Big Four. Non-Big Four firms are not given the same emphasis, most likely because the larger firms dominate the market, auditing the vast majority of multinational and publicly-listed companies (Carson, Simnett, Soo, & Wright, 2012; Gerokos & Syverson, 2015). Data are simply more readily available for Big Four firms, whether it be archival or qualitative data. Yet, regulators are increasingly aware of the need to promote competition in what is viewed as a highly concentrated market by encouraging the participation of non-Big Four firms. The recent audit reform debates in the United Kingdom (UK) illustrate this[1] (House of Commons, 2019; The Economist, 2018a, 2018b). Furthermore, the literature suggests that the smaller firms in the profession, who operate at the 'periphery' of the field, rather than the 'centre' (Guo, 2016; Malsch & Gendron, 2013), may not be as commercially orientated as their Big Four counterparts (Greenwood & Suddaby, 2006; Lander, Koene, & Linssen, 2013; Suddaby, Gendron, & Lam, 2009). However, Coram and Robinson (2017) provide some evidence that this 'profit

[1] Most notable in this UK process is the push towards policies of joint audits and market share caps to benefit the 'mid-tier' firms (House of Commons, 2019).

incentive' gap may be closing. Mid-sized (or 'mid-tier') audit firms[2] are increasingly copying the profit-sharing and performance incentive structures of the Big Four, suggesting that they are catching up in the construction of their commercial business model. Little research exists exploring this shift.

We respond to the call by Greenwood et al. (2011) and Smets and Jarzabkowski (2013) for a more complete examination of situations in which multiple competing logics are found, as well as the acknowledged gap in the literature relating to how mid-tier auditors may legitimise and internalise their commercialism in a manner differently to the Big Four (Guo, 2016; Malsch & Gendron, 2013; Suddaby, Cooper, & Greenwood, 2007). Research to date focuses on the rhetoric of Big Four (see, Carnegie & Napier, 2010; Dermarkar & Hazgui, 2020; Guo, 2016; Malsch & Gendron, 2013; Spence, Zhu, Endo, & Matsubara, 2017). Our findings will refine our current understanding of agency, intentionality and effort in institutional work (Guo, 2016; Smets & Jarzabkowski, 2013) by demonstrating how mid-tier auditors respond to institutional complexity in their strategy and everyday practice.

The Big Four auditors institutionalise commercialism by arguing that their integrity prevents, or at least safeguards, unethical behaviour and, more importantly, that commercial incentives actually *promote* and *improve* their ability to deliver audit quality (Dermarkar & Hazgui, 2020). Commercialism, they argue, *maintains the relevance* of the profession (Suddaby & Greenwood, 2005). There is an unambiguous claim that their MDP model, which facilitates access to diverse expertise beyond audit, enhances audit quality. Guo (2016, p. 105), confirmed by Dermarkar and Hazgui (2020), illustrates how the Big Four identify themselves as 'versatile experts', claiming that their expertise is cross-disciplinary, making them collectively "more knowledgeable and skilful than conventional auditors". The Big Four have thus been successful in redefining the boundaries of their work (Guo, 2016) and embracing the consulting side of their expanded business (MDPs) to resolve the tension between the logics and legitimize their economic agendas. In this way they "convince themselves" of the value of their work and business model (Dermarkar & Hazgui, 2020, p. 16) and attempt to achieve a "taken-for-grantedness" in the mind of the public (Guo, 2016, p. 111).

The presence of the two logics in the profession has been described by Malsch and Gendron (2013, p. 889) as inherently necessary but existing in a 'precarious state', with neither logic being able to supplant each other, making "balance all the more delicate and improbable". We surmise that the mid-tier auditors may tackle this balancing act (and thus legitimise commercialism) in a manner differently to Big Four auditors. In addition to the evidence that mid-tier firms may be less profit-driven (Lander et al., 2013; Suddaby et al., 2007), it has been shown that generally they are unable to charge clients the fee premiums of the Big Four. This has been attributed to the perceived inferiority of mid-tier firms (Greenwood & Suddaby, 2006) who are viewed as possessing less expertise, technology and resources (Carson et al., 2012; DeAngelo, 1981; Simunic, 1980). These factors relate to a combination of both professional traits such as expertise (skill), and commercial traits such as market share, staff size and the financial ability to invest in resources such as technology and audit-supporting expertise. Whether the Big Four do indeed produce higher audit

[2] In this paper we will refer to 'mid-tier firm auditors' as simply 'mid-tier' or 'mid-tier auditors', in contrast to the 'Big Four'. Typically, this refers to the firms which are smaller than the Big Four from a staff resource perspective, yet nonetheless are of sufficient size to audit some exchange-listed companies and public-interest entities.

quality is debatable. Having a Big Four firm as auditor may simply be "a signal to capital providers of high-quality" (Carson et al., 2012, p. 51).

With an understanding that institutional logics are a socially constructed phenomenon (Berger & Luckmann, 1966; Thornton & Ocasio, 1999; Thornton, Ocasio, & Lounsbury, 2012), we conduct semi-structured interviews with South African auditors to examine how mid-tier auditors manage institutional complexity and legitimise their commercialism within a relevant regulatory setting. As a highly topical audit regulation, the South African audit regulator, following the European Union (EU), promulgated rules that require mandatory audit firm rotation (MAFR). The ruling requires public companies to replace their auditors, almost all of which are Big Four firms, many having been appointed for decades. In addition to repairing audit quality, the South African regulator has expressly incentivised the mid-tier firms to embrace their commercialism and use this opportunity to grow their market share. Mid-tier auditors thus have an unprecedented opportunity to secure clients from the Big Four if they choose to compete. The setting allows us to examine commercialism rhetoric within a regulatory change context and contrast it with the legitimation strategies of the Big Four already documented in the literature (e.g., Dermarkar & Hazgui, 2020; Guo, 2016; Suddaby & Greenwood, 2005). The interpretation of the data is informed by a theoretical framework of institutional complexity (Greenwood et al., 2011) and the understanding that such logics are socially constructed, grounded in language and communicated by persuasive actors (Berger & Luckmann, 1966).

Our findings suggest that mid-tier auditors, like their Big Four counterparts, are quick to legitimise commercialism by arguing that this incentive *enhances* their ability to deliver audit quality. The two logics are thus internalised in a *complementary* not contradictory manner, through a form of logics hybridization (Binder, 2007; Glynn & Lounsbury, 2005; Greenwood et al., 2011), which we refer to as 'commercial professionalism'. Yet, to compete in a market where the Big Four are perceived as superior and possessing a highly developed and difficult to replicate MDP business model, mid-tier auditors reshape their identity differently within this hybrid logic. To resolve the institutional complexity and forge a competitive advantage, rather than mimicking the 'versatile expert' identity of the Big Four, we find mid-tier auditors' market and demonstrate their professionalism through 'heroic' representations of battling adversity and bias. In addition, mid-tier auditors claim to offer a more personalised service which prioritises the client in a way that the Big Four do not. We suggest that this 'reinvented' identity, standing in contrast to the 'versatile expert', is one of a *'more devoted expert'*. Our findings support the idea that although mid-tier auditors may appear to place more emphasis on professionalism (Lander et al., 2013; Suddaby et al., 2007), it is part of a strategy driven by commercial incentive, which essentially supports the findings of Coram and Robinson (2017). Although the identity forged by mid-tier auditors differs from the Big Four, it is just as strategic, intended to provide a competitive advantage, rebut criticism from the public and resolve the 'cognitive dissonance' created by the institutional complexity. As mid-tier auditors are encouraged to compete more with the Big Four and move away from the 'periphery' of the market, the tensions inherent in the logics, as well as the strategic necessity to display this rhetoric of a hybrid logic with a reinvented identity, may become more prominent. Audit is, after all, a business (Power, 2003).

This paper is structured as follows. The next section describes the South African regulatory context which forms the background to the discourse. Providing the theoretical lens for the discursive analysis, Section 3 then outlines the theory of institutional complexity and social constructivism, with application to the audit profession. The method section, Section 4, describes the analytical framework used to help interpret the data, grounded in social constructivism and legitimation rhetoric. This is followed by a description of the process followed for data collection and analysis. A discursive analysis, interpreting the data within the theoretical framing and relating it to extant research on auditor legitimation, is provided in Section 5. Finally, we provide a concluding discussion in Section 6.

2. The regulatory context: Mandatory audit firm rotation in South Africa

The South African audit regulator, the Independent Regulatory Board for Auditors (IRBA) promulgated regulations in June 2017 requiring Johannesburg Stock Exchange (JSE) listed companies and certain other public-interest organisations to implement audit firm rotation (MAFR) on a ten-year rotation basis (IRBA, 2016, 2017b). This is consistent with the rotation requirements introduced through the EU audit reforms[3] effective in 2016 (Horton, Tsipouridou, & Wood, 2018). The more traditional and less stringent partner-only rotation rules are in place in most other countries, for example the US, UK, Canada and Australia (Harber & Maroun, 2020).

Auditor rotation rules, whether firm rotation (MAFR) or partner-only, are designed to safeguard auditor independence by limiting the tenure of the auditor-client relationship (Stefaniak, Robertson, & Houston, 2009; Tepalagul & Lin, 2015). However, the IRBA has articulated a controversial secondary objective for MAFR namely, to allow mid-tier firms the opportunity to grow their market share by securing clients from the Big Four (Harber & Maroun, 2020; IRBA, 2016). The reasoning provided was twofold. Firstly, there was the concern over the economic risk posed by the dominance in the market of the Big Four.

> *In 2016 alone all the "Big 4" firms globally have been fined, sued* or settled court cases *with amounts running up to billions of dollars. Given the global concentration of listed companies audited by the "Big 4", any failure of a firm, as happened with Arthur Andersen, will necessarily permeate other economies and jurisdictions, given the global presence of multinational corporations.* (IRBA, 2016, p. 10)

Secondly, MAFR would promote competition and create opportunities for non-Big Four firms to grow market share.

> *It will promote transformation by creating more opportunities for small and mid-tier audit firms to enter certain markets, provided they are competent to audit in those markets.* (IRBA, 2016, p. 10)

Rather unusually, the regulator is explicit in its use of regulation to advance the interests of mid-tier firms and have expressed the hope that these firms will respond and seize the opportunity.

[3] The South African ruling, per Gazette No. 40888, as per the Auditing Profession Act, 26 of 2005. The E.U. ruling, per Regulation (EU) No 537/2014.

Whereas the dominance of the Big Four firms is a global reality and a concern for regulators[4] (Bleibtreu & Stefani, 2018; Gerokos & Syverson, 2015), it is unusual for a regulator to intentionally interfere with market mechanisms for auditor appointment. Within the industry consultation paper itself (IRBA, 2016), as well as via numerous public communications from the IRBA, mid-tier auditors have been expressly encouraged to use the regulation as an opportunity to grow their client base (IRBA, 2017a; RSA, 2017a, 2017b). The IRBA thus *intends* MAFR to lower supply concentration in the market and promote competition. The dominance of the Big Four, specifically the risk that one of them fails (as happened with Arthur Andersen in the US in 2001), is considered a risk to the economy. After the June 2017 ruling many JSE companies have already, and will continue to, take their audit engagements to the market in compliance with the MAFR rules, many for the first time in decades[5]. This context provides an opportunity to understand how the mid-tier auditors legitimize and internalise commercialism in light of the institutional complexity inherent in the profession.

Figure 1 provides an illustration of the causal logic of MAFR. As audit firm tenures increase, proponents of MAFR argue that a compromising familiarity develops between the auditor and the management of the client, which threatens auditor independence. The downside of rotation, however, relates to the auditors' 'learning effects' (Bleibtreu & Stefani, 2018), i.e. the loss of client-specific knowledge and expertise gained by the incumbent auditor over time. This inherent trade-off is central to the MAFR debate. Consistent with the literature (e.g., Stefaniak et al., 2009; Tepalagul & Lin, 2015), regulators understand auditor independence and auditor expertise to be the two key attributes contributing to audit quality. Thus, improving independence (*Link 1, '+' association*) should improve audit quality (*Link 2, '+' association*). Likewise, the replacement of an experienced auditor with one less familiar with the complexities of the client's business (*Link 3, '-' association*), should decrease audit quality (*Link 4, '+' association*)[6].

[4] In 2010 in the US public market, the Big Four handled 67% of audit engagements and collected over 94% of audit fees (Gerokos & Syverson, 2015). Before the enactment of MAFR in South Africa, 96% of the Johannesburg Stock Exchange (JSE) companies (by market capitalisation) were audited by the Big Four (IRBA, 2016).

[5] The IRBA identified 31 companies on the JSE who had not rotated their audit firms in more than 20 years, with two companies, audited by Deloitte and PwC respectively, not having changed audit firms in over 100 years (IRBA, 2016).

[6] Our purpose here is to outline the logic of MAFR, not to provide a detailed review of the literature on its efficacy to improve audit quality. Suffice to say, the studies performed in jurisdictions where MAFR has been enacted (such as South Korea and Italy), show mixed findings on the ability of MAFR to improve audit quality (see, Cameran, Prencipe, & Trombetta, 2016; Casterella & Johnston, 2013; Choi, Choi, Gul, & Lee, 2015; Kwon, Lim, & Simnett, 2014).

Figure 1: Regulatory logic of MAFR in South Africa

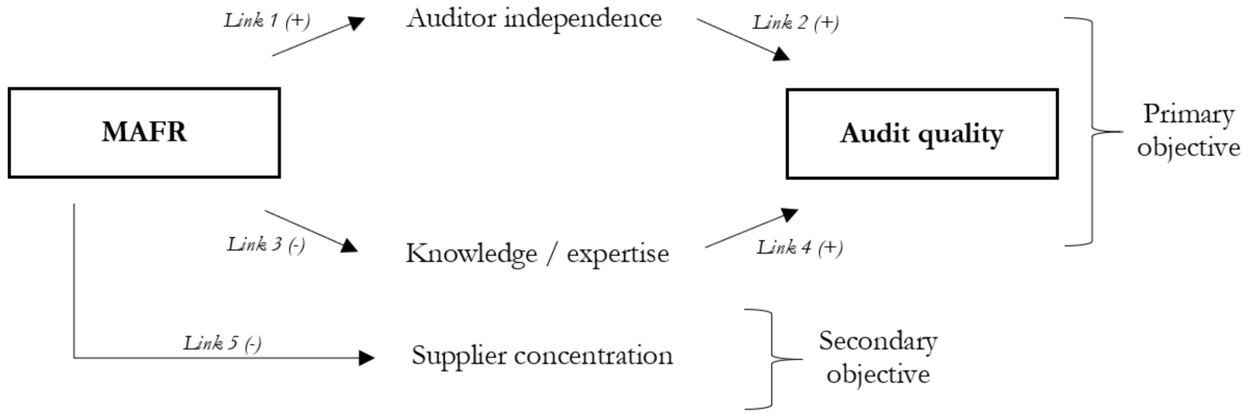

Figure 1 also illustrates the 'secondary objective'. As discussed, the intention is to reduce supplier concentration (*Link 5, '-' association*) by providing opportunities for mid-tier firms which have not otherwise been provided through normal market mechanisms. This objective is unrelated to improving audit quality per se[7].

Considering how seldom voluntary rotations of audit firms occur (Casterella & Johnston, 2013; Stefaniak et al., 2009), a MAFR setting such as South Africa presents an opportunity for researchers to investigate its effects. We intend to use this setting to explore mid-tier auditor rhetoric surrounding the logic of commercialism, as they respond to the opportunity presented to move from the 'periphery' of the market (Guo, 2016; Malsch & Gendron, 2013) towards the 'centre'.

3. Theoretical framework: Institutional complexity and the audit profession

3.1 Structural changes in the profession

Sceptical voices in the literature argue that auditors use a professional cover to hide an economic priority for profit and market share (Cooper & Robson, 2006; Hopwood, 1989; Lee, 1995; Malsch & Gendron, 2011; Sikka, 2009; Sikka & Willmott, 1995). Lee (1995) goes so far as to suggest that commercialism has always been the fundamental influence driving the professionalization of accountants. Other researchers have claimed that commercialism was not originally the dominant logic, but since the late 1970s there has been a shift in its favour concomitant with structural changes in the profession (Dermarkar & Hazgui, 2020; Malsch & Gendron, 2013; Picard, Durocher, & Gendron, 2014; Suddaby et al., 2007). This is despite the international code of ethics clearly dictating the obligation for auditors to prioritise their professionalism:

> *The distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest* (IESBA, 2018, p. 16).

[7] By 'unrelated' we mean from the perspective of the IRBA. The literature does indicate market benefits from lower supply concentration and higher competition (Carson et al., 2012). On the other hand, high concentration may improve audit quality as the larger firms are less reliant on individual clients for fee revenue (Bleibtreu & Stefani, 2018).

The 1980s and 90s were a time of major consolidation in the audit market, with mergers creating the 'Big Five' at the turn of the century. Following the Enron scandal and the resultant collapse of Arthur Andersen (Francis, 2004; Malsch & Gendron, 2011), the Big Four remain dominant. During and after this period of supply concentration in the market, particularly in the early 2000s, the larger firms shifted their business model to offer the market a diverse supply of professional services other than audit, in fields such as tax, corporate finance, accounting and even legal (D. Cooper & Robson, 2006; Malsch & Gendron, 2013; Suddaby & Greenwood, 2005). The audit firms rebranded themselves as MDPs, otherwise known as 'professional service firms' (PSFs). These changes resulted in the Big Four exercising considerable influence in capital markets beyond traditional audit.

As the profession changed, so did its institutional culture (Dermarkar & Hazgui, 2020; Picard et al., 2014). After periods of crisis, such as Enron in 2001 and then the global financial crisis in 2008/9, the rhetoric and marketing from auditors changed accordingly – auditors attempted to re-emphasise their "seriousness, rigor and integrity" in representations with society (Picard et al., 2014, p. 102). The profession rallied to restore its legitimacy, prevent major disruptive reform (Sikka, 2009; Whittle et al., 2016) and retain its cherished social licence and privileged status in society (Carnegie & Napier, 2010). Following numerous local corporate failures South Africa is currently experiencing such a period of reform following crisis (Harber & Maroun, 2020).

3.2 Institutional logics: complexity and tension

Termed "cognitive dissonance", Festinger (1957) proposed that people experience psychological discomfort when they hold two or more cognitions that are psychologically inconsistent. This mental conflict can cause a person to then strive for internal psychological consistency. These "dynamic forces that push and pull at people as they navigate their social world" are an enduring and successful theory in the history of social psychology (Cooper, 2019, p. 1). Organizational leadership face a similar type of dissonance, when two or more of these cognitions compete for influence in various domains i.e., they "face institutional complexity whenever they confront incompatible prescriptions from multiple institutional logics" (Greenwood et al., 2011, p. 317).

Institutional logics are the 'rules of the game' and reflect the socially constructed basis of "historical patterns of material practices, assumptions, values and beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton & Ocasio, 1999, p. 804). An analogy is of an organization playing "in two or more games at the same time" (Kraatz & Block, 2008, p. 2). If you play by the rules of one game, then you're breaking the rules of the other game, which places organizational legitimacy at risk (Purdy & Gray, 2009). Smets et al. (2015) motivate that this complexity is a particular problem at an individual level within the organization, affecting a professionals' everyday work activities. They give the example of a parent who might combine logics when caring for a sick child at home - the parent may work from home, but not likely at the dinner table. The complexity is found in how to combine professional and parenting practices in these types of situations. Researchers need to consider complexity from both an individual and organizational level.

How an organization responds to complexity is important as it defines its social legitimacy (Greenwood et al., 2011) and can impact access to resources necessary for survival or performance.

As auditors resolve this complexity and attempt to balance the logics in their businesses it impacts their ability to *compete* in the market. For example, if an auditor allows a commercialist agenda to impair audit quality, or if it is even perceived as doing so (for example a high-profile corporate scandal), this could result not only in loss of legitimacy (and clients) but potentially even a cancelation by a regulator of their license to practice (Carnegie & Napier, 2010). This is similar to the tension between professionalism and managerialism in law firms as investigated by Smets and Jarzabkowski (2013). If these logics are not compatible, it will create a discernible degree of unease for practitioners (Greenwood et al., 2011). Suggested responses to such institutional complexity are largely structural and include strategies that are not quite feasible for auditors, such as compartmentalizing the logics within different divisions of the organization, recruiting staff with no prior attachment to either competing logic, or using influence over external constituents to avoid sanction (Greenwood et al., 2011; Greenwood & Suddaby, 2006; Pache & Santos, 2010; Smets & Jarzabkowski, 2013). There is however some evidence for the Big Four employing this latter strategy i.e., influencing and even infiltrating regulatory mechanisms to affect regulatory outcomes in their favor (Canning & O'Dwyer, 2013; Malsch & Gendron, 2011).

3.2.1 Attempts to resolve the logics

Organizations respond to institutional complexity and the diversity of circumstances in different ways. The crux is that not all actors are equally motivated by all logics - "not all events are attended equally" (Hoffman & Ocasio, 2001, p. 415). Consider how all academics are expected to teach and research. These two logics might appear to be compatible, but they often create tension between one another in practice. Practices (here, the routine work of an academic) are enacting logics – and these logics may be constructed differently by actors. Using the framework of Smets and Jarzabkowski (2013), the career trajectory of different academics shows how some maintain those logics *separately*, some make them *complementary*, some construct them as being *contradictory*, and others construct them as being *compatible*. The position and placement of the logics by each academic will influence their management of such institutional complexity. Smets and Jarzabkowski (2013, p. 1301) showed how lawyers constructed what were previously deemed contradictory logics (professionalism and managerialism) as compatible through the *hybridization* of practices i.e., ordinary practices traditionally associated with one logic were adapted to accommodate the 'other' logic. In so doing, the lawyers pragmatically, rather than intentionally "re-cast the relationality between logics".

There is much remaining to be explored by researchers concerning the way in which organizations navigate complex institutional environments (Greenwood et al., 2011; Pache & Santos, 2010). Some studies examining logic shifts imply the creation of a new logic to replace the dominant logic, due to incompatibility (Greenwood et al., 2011; Thornton & Ocasio, 1999). Conversely, other studies show how logics may be combined and reconfigured to create hybrid organizational forms, hybrid practices, hybrid identities and hybrid logics (Binder, 2007; Glynn & Lounsbury, 2005; Greenwood et al., 2011). In some contexts, therefore, conflicting logics can be tailored to be relatively compatible and this tailoring is often a strategic response – an attempt to turn the "conflict into an opportunity for institutional agency and strategic choice" (Pache & Santos, 2010, p. 474). Goodrick and Salancik (1996), reflecting on this compatibility, refer to the '*specificity'* of logics and the degree and the source of the incompatibility. There is greater conflict the *more* specified the logic, whereas logics which are ambiguous and lack specificity enable an organization to act with more discretion to alleviate any tensions in complexity (Greenwood et al., 2011).

To explain how complexity is resolved in law firms, Smets et al. (2012) shows that, through their socialization processes, lawyers detach their professionalization from the wider professional context, enabling them to lessen their commitment to its limitations. This kind of institutional immunity reduces the number of logics and the level of institutional complexity experienced, while at the same time extending the scope of discretion available to the organization. In the audit profession, although the logics are *well-defined* [8], suggesting therefore that the logics have a high degree of specificity, the problem is with the concept of 'audit quality'. Audit quality as a construct is ambiguous and difficult to define, let alone measure, with multiple interpretations (see, Francis, 2004; Knechel et al., 2013). As such, this causes a *lack* of specificity in the two logics, which *reduces* the institutional complexity and allows more discretion for influential actors in the profession to legitimize commercialism and perhaps create hybridizations.

3.2.2 Auditors reinventing their identity

Research focusing on Big Four auditors shows that institutional complexity and the scrutiny from outsiders (concerning conflict of interest) is resolved through their argument that commercial incentives *enhance* audit quality. In this way they represent the logics as more than simply compatible – they represent them as complementary. More specifically, the Big Four have reinvented their identity as *'versatile experts'* (Dermarkar & Hazgui, 2020; Guo, 2016, p. 105; Suddaby & Greenwood, 2005), appealing to the benefits of their cross-disciplinary expertise within their MDP business model. This has been interpreted as an attempt to legitimize commercialism and thus enable the restructuring of their industry and grow their influence in capital markets (Cooper & Robson, 2006; Malsch & Gendron, 2011, 2013). The argument that commercialism enhances professionalism (complementary relationship) shows a hybridization of the logics, one that could perhaps be termed 'commercial professionalism'. Not only does this alleviate the conflict of institutional complexity, it also rebuts societal and regulatory criticism, thus promoting ethical legitimacy. Furthermore, this reinvented identity as a versatile expert is an example of a *hybrid identity* stemming from this *hybrid logic* (Binder, 2007; Glynn & Lounsbury, 2005; Greenwood et al., 2011). The Big Four have redefined themselves and the boundaries of their work (Guo, 2016). This has been instrumental in their transition to MDPs (Suddaby & Greenwood, 2005).

The Big Four use this identity to maintain their prominence in the mind of investors and those charged with governing companies (those responsible for auditor appointment). The Big Four are viewed as possessing superior expertise and resources for the audit of larger public-interest entities (Carson et al., 2012; DeAngelo, 1981; Dopuch & Simunic, 1980). Higher audit fee premiums are paid as a result. However, there is uncertainty in the literature whether the higher fee premiums are due to bona fide audit quality superiority, or whether they are economic rents arising from competitive dominance and the perception (rather than reality) of higher audit quality (Bleibtreu & Stefani, 2018; Gerokos & Syverson, 2015). Either way, it is difficult for the mid-tier firms to break into the market.

[8] Acting 'professionally' is established as the application of integrity (ethics) and expertise to serve the public interest and thereby produce high quality audit outcomes (IESBA, 2018; Knechel et al., 2013).

The mid-tier business model and culture appears different. They are more embedded in local and national contexts (Ramirez, 2009), more dependent on local associations and sites of professionalization for their training of staff (Cooper & Robson, 2006; Ramirez, 2009) and play a lesser role in regulatory disputes and negotiations with national regulators (Canning & O'Dwyer, 2013; Malsch & Gendron, 2011; Sikka & Willmott, 1995). The mid-tier firms also service smaller businesses, sometimes even entrepreneurial owner-managed operations. As such their audit partners may be relatively more engaged with their audit teams and the client's staff. We suggest that, for these reasons, mid-tier auditors are likely to legitimize and institutionalize the logics in a different manner, one which has not been explored in the research. Some researcher have identified this gap (e.g., Guo, 2016; Malsch & Gendron, 2013; Suddaby et al., 2007). Lander et al. (2013) provide preliminary evidence, supporting the expectations of Greenwood and Suddaby (2006) and Suddaby et al. (2009), that the mid-tier firms may not be as profit-focused as the larger firms. Yet, an examination of remuneration and profit-sharing structures in mid-tier firms by Coram and Robinson (2017) suggest that the gap may be closing. As mid-tiers seek to move towards the 'centre' of the profession by competing with the Big Four, the conflict and complexity of the logics will become more pronounced and "create ambiguity and the concomitant need for sensemaking about the implications of logic changes" (Thornton et al., 2012, p. 12). The commercialism, well-established structurally within the Big Four, has created for the mid-tier firms "a professional field full of tension between the traditionally dominant" professional logic and the "increasingly pervasive" commercial logic (Hanlon, 1996; Lander et al., 2013, p. 130).

3.3 The logics as a socially constructed phenomenon

This concept of institutional logics emphasises the idea that they are a socially constructed phenomenon (Thornton & Ocasio, 1999; Thornton et al., 2012). The seminal work on social constructivism was provided by Berger and Luckmann (1966, p. 79), who explain that an institutional order requires legitimation, "that is, ways by which it can be explained and justified", so as to convince actors (and broader society) of its necessity. This justification ascribes "cognitive validity to its objectivated meanings… giving a normative dignity to its practical imperatives" (p. 111). Such legitimations establish the order and lead to 'reification'.

> *Reification is the apprehension of human phenomena as if they were things, that is, in non-human or possibly supra-human terms. Another way of saying this is that reification is the apprehension of the products of human activity as if they were something other than human products - such as facts of nature, results of cosmic laws, or manifestations of divine will.* (Berger & Luckmann, 1966, p. 106)

It is this reification of commercialism and professionalism in the audit profession which Spence et al. (2017) describe as problematic, because the logics are culturally dependent and socially constructed, differing in interpretation from one context to another. Applying a lens of social constructivism allows researchers to *de-reify* the logics and understand them as grounded in human history, behaviour and discourse, as with all institutional orders (Berger & Luckmann, 1966).

To understand the institutionalisation of logics within commercialised professional contexts it is important to examine the rhetoric of actors who are influential and persuasive, what Berger and Luckmann (1966) refer to as 'agentic' actors. We intend to interact with auditors who act in *leadership* roles at their audit firms, those who "help to produce, as well as reproduce, the identity not just of accountants, but also the way economic and social life is to be conceived, managed and changed" (Cooper & Robson, 2006, p. 436). It is the leadership of audit firms who enact firm-level responses to market opportunities and who are highly influential in legitimising commercialism.

As auditors internalise and legitimise commercialism, sometimes through hybridization and identity-shaping, researchers need to use interpretive methods and critical analysis to understand these shifts. This contributes to the de-reification of the logics, deepening our appreciation of the logics as dynamic, not static and immovable, human constructs propagated through rhetoric and practice. Practically, this aids society in exercising democratic control over professions through appropriate regulation (Cooper & Robson, 2006; Malsch & Gendron, 2013).

4. Method

4.1 Discursive analytical framework adopted

To aid our interpretation of how auditors legitimize commercialism, we supplement the institutional complexity theory for our analysis with a four-category typology of legitimization in social discourse developed by Van Leeuwen and Wodak (1999) and refined by Van Leeuwen (2007). The framework is based on the social constructivism theory of Berger and Luckmann (1966) and has been used by researchers for various empirical settings in corporate and political discourse to interpret how actors legitimise their behaviour (e.g., Johansen & Nielsen, 2012; Vaara, 2014; Vaara et al., 2006). Dermarkar and Hazgui (2020) use it to understand commercialism legitimation by auditors in Canada and France.

To attempt to legitimize a behaviour which is questionable, an actor may appeal to an authority (authorization), to moral virtues or ideals (moralization), rationalize the practice (rationalization), or tell an anecdotal story to convince the hearer of the benefit or downside of a practice (mythopoesis). These categories are described in more detail in Table 1 where we also provide audit-related examples for illustration.

Table 1: Categories of legitimization rhetoric, with subcategories

1. **'Authorization'** - the appeal to an authority
Appeal to a *personal authority* e.g., expert opinion or a role model.
Appeal to an *impersonal authority* e.g., law, regulation or tradition.
2. **'Moralization'** - the appeal to established moral values
Evaluation: Appeal to a moral adjective in describing a practice e.g., ''competition is healthy" or "profit sustains the profession".
Abstraction: Describing the practice in an abstract manner with a moral quality applied, e.g., instead of 'we tendered for the appointment', one might say 'we made a courageous attempt to secure the work'.
Analogies: Referring to other practices with similar positive values or benefits e.g., calling audit practice 'safeguarding', 'whistleblowing' or 'a gatekeeper'.
3. **'Rationalization'** – the use of reasoning
Instrumental: Reasoning to show the purposes it serves, the needs it fills, or the effects it has e.g., "we accepted the gift from the client as it establishes a stronger working relationship".
Theoretical: Reasoning grounded on the unavoidable state or nature of things e.g., "if you don't do that then you simply will not be appointed" or "as the audit tenure grows, the auditor naturally develops a relationship with management".

4. ‘Mythopoesis’ – the use of narrative/storytelling
Moral tales: Use of an anecdotal story where the protagonist is rewarded (positive outcome) for the practice e.g., “the function we had with the client was such fun and we really bonded as a group”.
Cautionary tales: Use of an anecdotal story showing negative outcome for the protagonist resulting from what they did e.g., “when we did that our relationship with the client soured”, or “after all that I knew we were unlikely to be reappointed”.

Adapted from Van Leeuwen (2007), but with examples applied to auditing

As the mid-tier auditors respond strategically to the regulatory change which forms the empirical context of this paper, the institutional order thus created will likely be accompanied by a “canopy of legitimations” protected by a cover of “both cognitive and normative interpretation” (Berger & Luckmann, 1966, p. 79). These categories are not to be understood as mutually exclusive. Individual justifications can be complex as they seek to legitimize, delegitimize, or relegitimize particular practices, whether intentionally or, more likely, unintentionally (Vaara et al., 2006; Van Leeuwen, 2007). A common example of this is where a rational argument makes appeal to moral values, or tradition. In the context of this study, a possible line of reasoning could be as follows:

> *Growing our profitability as a firm allows us to invest in junior staff from disadvantaged backgrounds (moral value) as well as invest in audit technology (instrumental rationalisation). The regulator expects us to do these things (impersonal authority).*
> (Hypothetical illustration)

4.2 Data collection

We employ an interpretative approach using semi-structured interviews. The interviews were specifically designed so as not to enquire about the balance of the logics directly[9]. Making direct enquiries about commercialism and its potential conflict with the production of audit quality would introduce a risk of social-desirability response bias. To avoid responses which were inauthentic and guarded, likely overemphasising the professional ideals in response to knowing the research agenda, the interview questions were designed to engage in a discussion about the regulation itself and how it impacted their firm operationally and strategically. In so doing our intention was to then interpret the way the logics are represented, resolved and balanced within a normal, not fabricated, professional discussion. The following questions were used, prefaced with an encouragement to participants to justify their responses as far as possible:

1. *Do you believe that MAFR will achieve the objectives intended by the IRBA?*
2. *What impact will MAFR have on the audit market and audit profession in South Africa?*
3. *What impact will MAFR have on your firm and specifically, how does your firm intend to respond strategically to the regulation?*
4. *Do you believe mid-tier audit firms will successfully compete for appointment of JSE-listed companies?*
5. *Do you believe that the mid-tier firms are capable of auditing JSE-listed companies previously serviced by the Big Four? (or, would produce an equivalent level of audit quality?)*

[9] This indirect interpretive approach is similar to that performed in other auditing research where participants discuss a matter of professional or regulatory significance, rather than the topic of professionalism versus commercialism directly (e.g., Baker, 2005; Spence et al., 2017; Sweeney & McGarry, 2011; Whittle et al., 2016).

Interviews were conducted on 12 mid-tier firm audit executives from seven different audit firm networks, plus five Big Four firm executives, for a total of 17 interviews (Table 2)[10].

Table 2: Interview participant details

Firm size classification, Position (City) [1]	**Individual identifier**	**Experience (years)** [2]	**In support of MAFR?**
Mid-tier, Managing partner (Johannesburg)	AP01	22	No
Mid-tier, Managing partner (Johannesburg)	AP02	23	Yes
Mid-tier, Senior partner (Johannesburg)	AP03	29	Yes
Mid-tier, Managing partner (Cape Town)	AP04	32	No
Mid-tier, Senior partner (Cape Town)	AP05	17	No
Mid-tier, Senior partner (Cape Town)	AP06	16	No
Mid-tier, Managing partner (Johannesburg)	AP07	33	No
Mid-tier, Managing partner (Cape Town)	AP08	28	No
Mid-tier, Senior partner (Cape Town)	AP09	7	No
Mid-tier, Senior partner (Cape Town)	AP10	9	Yes
Mid-tier, Senior partner (Johannesburg)	AP11	11	Yes
Mid-tier, Senior partner (Johannesburg)	AP12	9	Yes
Big 4, Senior partner (Johannesburg)	AP13	25	No
Big 4, Managing partner (Johannesburg)	AP14	20	No
Big 4, Senior partner (Johannesburg)	AP15	16	No
Big 4, Senior partner (Johannesburg)	AP16	21	No
Big 4, Managing partner (Cape Town)	AP17	23	No

1 - The city where the respective auditor's office is located.
2 - The number of years practicing as an engagement partner i.e., as the audit partner signing the auditor's report.

As expressed by Humphrey (2008, p. 193):

> *The problem with so much audit research is that it does not explore audit practice per se, but rather fabricates such practice, studying around the edges of the "black box" of auditor decision-making or constructing experiments that cannot ever really be expected to replicate either the real pressures and career challenging or threatening scenarios that some auditors can encounter in their actual working environment.*

A focus in the interview was to understand these "real pressures" and "decision-making" factors as concerned the regulatory change. All participants, in addition to being practicing auditors, were members of their national executive team. This was deemed important for participant selection, and we believe this justifies the sample size. Prior studies of this nature obtain participants with a variety of expertise, many, if not most, acting outside of their firm's executive leadership (see, for example Dermarkar & Hazgui, 2020; Guo, 2016; Spence et al., 2017). If we had selected such individuals the sample size could have been larger, however we submit that it would not have

[10] To secure participant anonymity, the audit firms (# of participants) are listed here and not in Table 2: Grant Thornton (2); BDO (2); Mazars (2); Baker Tilly Greenwoods (2); Moore Stephens (1); SNG (1); Nkonki (2); PwC (2); Deloitte (2) and KPMG (1).

added further value to the study. Mid-tier audit firm leadership have been presented with an organisational-level strategic choice and thus we deemed it necessary to only interview members of the firms' national executive leadership. The decision of how to respond to the considerable increase of JSE-listed companies which would be rotating their auditors, was predominantly a firm-level, not practitioner-level decision. This assumption was confirmed by the interview data. As an ideal, but not practically possible, we would have only interviewed the managing audit partner (sometimes designated the 'CEO') of each firm. The decision to interview firm executives was also consistent with the theory of institutional complexity's emphasis on actors of influence (Greenwood et al., 2011) and the 'agentic actors' in the social theory of Berger and Luckmann (1966).

Of the top eight mid-tier firms globally (Gerokos & Syverson, 2015; The Financial Review, 2019), of which Grant Thornton and BDO are the largest, six have practices in South Africa. We were able to secure interviews with national-level executives in five of these firms, together with two local firms (SNG and Nkonki) which, although not international brands/networks are of a size comparable with the mid-tier group. A requirement for inclusion was that each mid-tier firm should be of sufficient size to stand a reasonable chance (from a staff resourcing perspective) of securing appointment of a smaller to medium sized JSE-listed company. There are thus seven mid-tier audit firms represented (see footnote 10). Additionally, audit executives from three of the four Big Four firms provide a 'Big Four perspective' in the data, allowing for some degree of comparison between these two groups of firms. Overall, six of the 12 mid-tier audit executives and two of the Big Four were the national managing partners of their respective firms. As senior leadership within their firms, with an average of 20 years' experience as a 'signing engagement partner', ranging from 7 to 33 years (Table 2), the participants felt the freedom to be frank concerning their views and their respective firm's strategic intentions. This frankness is evident in the interview data collected. This is another advantage of interviewing such senior individuals – staff at a lower level would be more guarded in their views, less experienced, and less knowledgeable of the strategic intentions of their firm's leadership. Overall, we submit that an appropriate *diversity* of the *key decision-makers* in the mid-tier market is represented in our sample.

To ensure consistency, interviews were conducted by the same individual, being a professional accountant from South Africa with audit experience. This interviewer was familiar with the local regulatory environment[11], as well as the process and content of the regulatory debate as it had occurred between the regulator and profession, culminating with the final ruling in June 2017. Five of the interviews had to be conducted by telephone, as required by logistical considerations. The remainder were conducted in person at the respective firms' offices. The length of each interview ranged from 40 to 80 minutes. All participants granted permission for the interviews to be recorded, on the understanding that all client and personal identifications would be redacted from any publication. After the interviews had been transcribed each participant was provided the transcript and requested to suggest changes, clarify their views expressed, or provide further comment. Concerning the timing of the interviews, they were conducted after the communication of the regulatory change, but before companies on the JSE had begun the process of placing their audits to the market for proposal. The MAFR regulation requires all applicable companies to complete rotations before April 2023 (IRBA, 2017b).

[11] Examples of such regulations include the Auditing Profession Act (No 26 of 2005), the Companies Act, 2008 (No 71 of 2008) and the MAFR regulation itself (Gazette No. 40888).

4.3 Data analysis

The data were analysed interpretively, guided by the key issues and regulatory logic evident from the regulatory debate, the theory of institutional complexity and the framework from Table 1. To start, multiple readings of the transcripts allowed the researchers to gain a sense of content and structure. Particular attention was paid to articulations of cost and benefits arising, as well as strategic intentions. A few common themes emerged easily in the data, and we identified that much of the discourse from the mid-tier participants centred around perceived costs and benefits within two distinct periods. Firstly, there is the proposing/tendering process pre-appointment. Secondly, if appointed, there is the period of the first-year engagement. It was clear in *all* interviews that these two periods contained significant risks and a cost-benefit trade-off that was strategically important to the audit executives. This structure fits within the two main arguments in the literature against MAFR (Bleibtreu & Stefani, 2018; Casterella & Johnston, 2013) i.e., the replacement of an experienced auditor with one less knowledgeable of the client and the disruption and cost imposed on the industry. From this thematic framework we then formed two interpretive guiding questions, namely:

1. *What is the relationship between the two logics in the discourse, as 'constructed' by the participants? i.e., are they constructed as separate, complementary, contradictory or compatible (Smets & Jarzabkowski, 2013)*
2. *How do participants appear to legitimise the commercial opportunity presented to them by the regulation? i.e., as understood using the Van Leeuwen (2007) typology*

As guided by the above questions we paid specific attention to how mid-tier auditors may 'shape their identity' (Dermarkar & Hazgui, 2020; Guo, 2016) in *conformity* with, or perhaps *contrast* to, the Big Four auditors' identity as 'versatile experts'. The above process of analysis then influenced our structure for presentation of our interpretation of the discourse, which we now provide.

5. Interpretation of the discourse

5.1 The prioritization of professionalism rhetoric

Pervasive throughout the mid-tier auditor discourse was an express commitment to first and foremost improve audit quality through the regulation, not advance the interests of select firms. The mid-tier auditors were quick to 'raise the banner' of professional ideals and display a commitment to "*the sternness of my profession… {to} uphold independence"* (AP02), regardless of whether the individual supported MAFR and the firm's intention to compete with the Big Four.

> *Show me how the regulation leads to improved audit quality and I will buy it.* (AP08)
>
> *The whole reason that we're pushing mandatory audit firm rotation is to improve independence because of a familiarity threat, so as to bolster audit quality.* (AP03)

This appeal to audit quality by mid-tier auditors was sometimes accompanied by the rationale that MAFR would improve competition in the market and competition was *"always good"* (AP03).

The rhetoric of the Big Four displayed a different *emphasis*. Although there was continual reference to audit quality, the discussion would quickly focus on how unnecessary the regulation was and how disruptive and costly it would be to the profession. The Big Four expressed strong opposition to the regulation and by 'profession' it was often apparent that the Big Four participants were referring to themselves (not the mid-tiers), who serviced most of the market. All Big Four participants went so far as to make the case that MAFR *"could in fact be to the detriment of audit quality"* (AP17).

This difference in emphasis is interesting but interpretation is difficult. On one hand and indeed when the rhetoric is taken at face value, it suggests that the mid-tier auditors are more focused on professionalism and less commercially orientated, as suggested in prior research (Greenwood & Suddaby, 2006; Lander, Koene, & Linssen, 2013; Suddaby, Gendron, & Lam, 2009). However, it may simply reflect the differences in vested interests. Audit practitioners often act in alignment with vested interests, especially economic interests (Canning & O'Dwyer, 2013; Dellaportas & Davenport, 2008; Malsch & Gendron, 2011). Mid-tier firms need to display their professional attributes to win clients from the Big Four firms, while the Big Four are facing a potential loss and disruption to their business. It is possible that the mid-tier auditors are making "oblique references to professional values" (Dermarkar & Hazgui, 2020, p. 11) as a means of legitimizing or prefacing their intention to compete for clients. This is described by Van Leeuwen (2007, p. 100) as a strategic rationalization with a moral undertone - the "morality remains oblique and submerged" within the rationale. Here the implicit ideal is the ability of the regulation to improve independence and competition. Deploying a morally-based cover to support their commercial intentions is not dissimilar to what Lee (1995, p. 64) describes as clever rhetoric intended to advance "an economic text with a public interest cover". While this conclusion is plausible, it is perhaps overly cynical, especially considering that not all the mid-tier participants were in favour of the regulation (Table 2).

The complexity and tension inherent in the logics should create unease for the auditors and perhaps a noticeable cognitive dissonance. We would expect this to be exaggerated within the mid-tier auditors due to the competitive pressure placed on them from the regulation. The data does not suggest such conflict. Rather, the discourse from mid-tier auditors demonstrated a relative ease at identifying professional obligations and balancing it with the commercialist agenda. Support for the regulation was divided almost equally between the mid-tier auditors i.e., five *for* and seven *against* (Table 2). Those against argued that the regulation was unnecessary and onerous, sometimes expressed emphatically as *"pure overregulation and frustration… and going to cause additional stress"* (AP07). Interestingly, all the mid-tier participants justified their position for or against MAFR on its ability or inability to improve audit quality, implying a primacy towards the professionalism logic. Yet despite the split opinion all mid-tier participants, barring one[12], expressed the intention to respond competitively to the opportunity to secure JSE-listed companies (showing commercial intent). Of those in opposition to MAFR alternative suggestions to improve audit quality were provided, such as improvements to audit committee composition and function (to provide better oversight and governance over the audit function), and mandatory audit tendering, instead of forcing rotation. Overall, the mid-tier auditors articulated a primary commitment to professionalism logic and articulated the following rationale: if MAFR is not going to improve independence, then it should not be implemented, regardless of the commercial opportunities presented.

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[12] Baker Tilly Greenwoods was the notable exception, as they did not believe JSE-listed audit committees were prepared to appoint smaller audit firms and therefore bidding for appointment was deemed a waste of time and resources.

As stated, it is difficult to be definitive whether this rhetoric is evidence for the commitment of the mid-tier auditors to their traditional and 'idealised' obligation to protect the public interest (Dirsmith et al., 2015; Picard et al., 2014; Suddaby et al., 2009), or whether it is strategic and opportunistic. Our view is that it is the former. Each mid-tier auditor chose to address the audit quality aspect of MAFR first, rather than provide "a canopy of legitimations" in support of commercialism logic (Berger & Luckmann, 1966, p. 79), which in this case would be their intentions to seize the opportunity presented to them to take clients from the Big Four. Rather, they appealed to the inherent *purpose* of the regulation (improving audit quality), and its likely *efficacy*.

It is clear from the data that auditors communicate the two logics as unambiguous realities for the profession, "as if they were something other than human products" (Berger & Luckmann, 1966) and without a logical conflict. The logics have thus achieved reification in the discourse and are articulated as not being contradictory. Despite this lack of ambiguity we interpret a *low* degree of specificity (Goodrick & Salancik, 1996; Greenwood et al., 2011) when it comes to *what is meant* by the key terms of 'audit quality', 'auditor independence' and 'integrity'. Here there is scope for the auditors to act with more discretion to alleviate any tensions in complexity (Greenwood et al., 2011). What do these terms mean exactly? Unless there is a clear-cut case of fraud or gross negligence by an auditor, how are these constructs discernible by the regulator or the public? This is a known problem with the concept of audit quality – too often actors state what audit quality 'is not', rather than being able (or willing?) to venture what 'it is' exactly (Knechel et al., 2013). No doubt this plays to the auditor's advantage in discourse and practice to alleviate any tensions in logic complexity and pacify concerns from regulators and the public over poor audit outcomes.

5.2 MAFR and commercialism rhetoric

In this section we analyse how the audit executives intend, at a firm-level, to respond to MAFR. We find evidence that mid-tier auditors are fostering an identity created from a hybrid logic expression, to *differentiate* themselves from the Big Four.

5.2.1 Preventative and detective measures

Two primary justifications were contained in the discourse for why audit quality was not, nor would ever likely be, systemically compromised in the profession. Firstly, the reputational risk to the engagement partner acted as a preventative measure. An auditor, it was argued, has a self-interest to act with the requisite integrity and expertise (professionalism). Negligence to do so ultimately risked their professional reputation and their license to practice.

> *You {the audit partner} sign the report personally… you're personally invested because it's your name on the {auditor's} report… that's an additional disincentive for {poor audit work}.* (AP17)

> *… but here I'm putting my signature on those financials, so I need to make sure. It's all effort.* (AP11)

The argument is that commercial incentives will not compromise audit quality because it presented an existential threat to their career and reputation. The consequences of such failings act as a continual disincentive to be complicit in fraud or negligent behaviour. This is an example of rationalization (Table 1) which appeals to a combination of the negative outcome of a behaviour (instrumental rationalization) and the unavoidable nature of the profession (theoretical rationalization). Furthermore, we observed participants employing ‘cautionary tale’ mythopoesis or ‘narrative’ to explain the point (Table 1). Deviant behaviour such as acquiescing to management preferences or turning a blind eye to improper practices and financial reporting by the client, is expressed in a narrative to lead to an adverse outcome (Vaara et al., 2006; Van Leeuwen, 2007) These rhetorical techniques show a concerted effort to legitimize the commercial incentives and convince others that not only do commercialist agendas not compromise ethical commitments, they provide a motivation for them. This demonstrates how the two logics are intertwined in the rhetoric of auditors – the auditor argues that the *sustainability* of their profession and their individual career are inextricably linked to them acting with integrity. Commercial incentives (i.e., remaining in business) act to enhance professionalism.

Secondly, it was argued that (at least) three sources of preventative and detective oversight measures were in place and sufficient to mitigate poor audit quality namely, (1) the regulators periodic inspections of auditors, (2) internal inspections by the firms themselves as part of their quality control reviews of audit work, and (3) oversight by audit committees.

> *Many non-executives take their job seriously. You know our Audit Committees are very vigorous, vigorous processes, I attend a lot of Audit Committees and it’s a very vigorous process.* (AP07)

> *I mean, we’ve got quality reviews, it is a {firm name} requirement – and the audit partner must rotate every five years.* (AP13)

These appeals to the sufficiency of other regulatory mechanisms could be a means of downplaying risks to audit quality from commercial incentives. This is what Van Leeuwen (2007) calls ‘impersonal authorization’ (Table 1) i.e., legitimation by reference to an impersonal authority such as internal or external inspection process and external oversight. In this case the participants are arguing that these external control mechanisms prevent unethical and unprofessional behaviour. Dermarkar and Hazgui (2020, p. 15) identified a similar appeal by auditors to a “glorification of the inspections that they are subject to”, as a means of downplaying the risks of unethical behaviour.

5.2.2 Time, effort and cost: Tendering for appointment

The regulation will necessarily result in many JSE-listed companies placing their audits out for tender. The views expressed indicate that the mid-tier executives, and especially the larger of them such as Grant Thornton, BDO and Mazars, intend to compete for appointment. A pervasive view in the mid-tier discourse was the necessity to produce a high quality competitive tender proposal to the company’s audit committee, one that was comparable to those produced by the Big Four firms. Considerable risks and costs associated with such an endeavour were emphasised. Indeed, these considerations resulted in one firm (Baker Tilly Greenwoods) stating categorically that they refused to compete – the cost in their view outweighed the potential return.

The tender process was described as highly onerous, especially when it concerned a large multinational client, or one within a niche industry. The participants, both mid-tier and confirmed by the Big Four, painted a picture of considerable efforts expended and costs incurred by senior audit staff, to present a competitive bid before an audit committee. An audit firm had no guarantee of success, yet the process of competing required the dedication of at least an audit manager and audit partner over a period of many months if there was to be a reasonable chance of success. To present a competitive tender *"you need to understand the 'client's' business – but you're not yet appointed!"* (AP09). The mid-tier auditors bemoaned the reality that the odds were against them, for at least two reasons. Firstly, their practices did not possess the resources of the Big Four. And secondly, perhaps more emphatically stated, the audit committees had a prejudice against the mid-tier firms, believing them either incapable to audit their businesses, or inferior to the Big Four. This perception is supported in the literature (e.g., Carson et al., 2012; Greenwood & Suddaby, 2006). Some described this as a market-wide problem of perception, reinforced by influential investors who wanted only a Big Four appointment. The mid-tier auditors thus described a significant risk associated with expending a *"tremendous"* (AP04) number of resources, disproportional for their size, with less likelihood of appointment. A few went so far as to argue that the audit committees will sometimes disingenuously invite mid-tier firms to bid in a 'closed tender', only for appearance's sake – to demonstrate their inclusivity – but with no real intention to consider them.

> *It doesn't matter how hard you prove it {quality of proposal}, they just don't care.* (AP02)

> *You are facing an uphill battle against the preconceived ideas of the audit committee that the larger firms are better. (AP09)*

Here we again find the use of anecdotal stories (mythopoesis) from past experience and referring to company specifics, to illustrate the point. Mythopoesis employs small narratives in a way that is "often entertaining in tone and thus attracts in a special way" (Vaara et al., 2006. p. 802).

> *A significant amount of work goes into the actual proposal document, but I'll take a real case that we have had… {specifics excluded here for confidentiality}. We tendered and unfortunately, we weren't successful… It was a huge investment for us… just the research {alone} took a significant amount of time.* (AP12)

> *By way of exaggeration, we will need a department for tenders! It's a waste... less money to be spent on quality and more money to be spent on tendering, a layer of costs and inefficiency that we probably can't afford.* (AP08)

Nonetheless, despite these views, the mid-tier executives have chosen to compete, and by doing so their 'actions speak louder than words' and show that their rhetoric may be an exaggeration. If the mid-tier firm leadership truly believed that the 'game was rigged' against them and chances of appointment slim, then surely they would not dedicate the time and resources needed to compete. Rather, this rhetoric seems intended to display 'heroic' attributes and indirectly legitimize their commercial behaviour. We observed both 'moral tale' (positive outcome) and 'cautionary tale' (negative outcome) storytelling (Van Leeuwen, 2007). Examples of appointment success showcased heroic efforts by mid-tiers to overcome the odds and convince the audit committee by demonstrating a superior tender and a devoted auditor. On the other hand, there is the unsuccessful tender where the implication (sometimes stated explicitly) was that a heroic loss was experienced due to prejudice or an 'unfair fight'. In both examples we interpret this as the mid-tier auditor creating an 'identity' of a diligent and committed expert, dealing with pressures, risks and costs that are not equally faced by the Big Four. The adversity was presented in a descriptive manner to not only legitimize their commercialism efforts, but also to represent a distinctive 'identity' that sets them apart. Metaphors and figures of speech were common in the rhetoric, as is the case with such legitimation techniques (Van Leeuwen, 2007; Van Leeuwen & Wodak, 1999). Examples include:

> *we really 'went to town' with the presentation* (AP09)

> *management 'box it down' {before it} comes to the audit committee* (AP02)

> *sometimes they just invite you for a tender or to apply for a tender to 'tick a box', and then that really becomes very evident {later}* (AP12)

This also displays legitimation by instrumental rationalization (Table 1). The mid-tier auditors are arguing that their commercialism, namely their drive to overcome the adversity, is *required* to produce a quality competitive tender. A superior tender proposal demonstrates their knowledge of the client and ability to 'go the extra mile' and produce high audit quality i.e., their commercialist incentive (to win the tender) is a means of enhancing audit quality. Again, we have an example of the logics described as intertwined and complementary, not contradictory.

5.2.3 Time, effort and cost: Upskilling in the first year

In similar fashion, mid-tier participants made frequent reference to the high investment required *once appointed*. The primary argument against MAFR (Figure 1) is the threat to audit quality from the loss of expertise and knowledge of the client (Bleibtreu & Stefani, 2018; Casterella & Johnston, 2013). There is little, if any, institutionalised knowledge of the client transferred between the firms upon rotation (Harber & Maroun, 2020). Here the rhetoric demonstrated both logics in practice. The investment required in the first year was so high (especially as concerned senior staff time) that the engagement was loss-making. The audit fee for the first year of the engagement did not accommodate or recoup the investment required in that year to bridge the familiarity gap and properly understand the complexities at client from a financial reporting and audit perspective. Almost all auditors (Big Four included) described the first year on a new client as loss-making.

> *You see it all hinges around the cost… {but} you're giving that quality service no matter what. Whether it's in your first year, fourth, fifth year, whatever, you know, you're still performing a good quality audit… the only way you can {bridge the gap} is to be super hands on as the audit partner - I visited the client 3 or 4 times during the year before the audit even began in that first year*. (AP11)

The participants however expressed that making a loss was no excuse to compromise audit quality. Due effort was required to bridge the familiarity gap and achieve a high degree of audit quality before concluding the audit and forming an auditor's opinion. Yet the importance of regaining profitability and securing a sufficient return on investment over the longer term was expressed as crucial. Again, we see the interrelationship between the two logics. Not only do the participants perceive both logics as coexisting without contradiction - but profitability is also a *means* to ensure sustainability of the profession. One common illustration of this was the reference to the difficulty of attracting young talented accountants into the profession to be the next generation of auditors. It was argued that a lucrative profession was necessary to offer competitive remuneration and acceptable risk-reward opportunities, relative to careers outside of public practice. Thus, sustainable audit quality required talent retention and attraction, which in turn requires firms to be profitable.

> *The reward hasn't gone up… the youngsters who are talented that are coming through the university are not staying in the profession and so there will be a decrease in quality as the grey hair numbers start to retire from their positions… none of them want to stay.* (AP07)

> *The talent pool's not growing... {when I started} I had a bursary with a top mining house… {the audit firm} took over that bursary, but if I'd stayed and gone to Johannesburg with the mining house, I would have been retired today.* (AP17)

The quote above from AP17 is another example of cautionary tale mythopoesis, but these are also an 'ends justify the means' type of legitimation of commercialism, an instrumental rationalization (Table 1).

> *At the end of the day audit quality is paramount… but we're running a business* (AP17)

5.2.4 A more 'devoted' and 'ethical' expert identity

In the above legitimation the mid-tiers demonstrate a strategy of creating an identity that is *different* to their Big Four counterparts but intended to achieve the same end i.e., grow market share and profitability. The Big Four have "attempted not only to expand the scope of auditing and redefine auditors but, more importantly, to create expert work that fits the versatile expert identity" (Guo, 2016, p. 113). We argue that the mid-tier firms, who do not possess the expansive MDP business model and resources of the Big Four, have also redefined their identity – but as 'more devoted experts'. This is demonstrated to the market in their greater emphasis on professionalism and their 'heroic' efforts to overcome what they argue is bias and adversity against them. This adversity, they argue, is evident in the tender process pre-appointment and the first year of the audit engagement.

As with the efforts of the Big Four to redefine themselves and create work accordingly as versatile experts (the MDP model), the mid-tier firms are likewise creating a source of competitive advantage (consciously), and a means of resolving the complexity of the logics (perhaps subconsciously). It is wrapped up in the institutionalizing of commercialism where commercial incentives are argued to *enhance* audit quality – which is exactly what the Big Four have done with their arguments prefaced on their MDP business model (Suddaby & Greenwood, 2005) and their identity as versatile experts (Dermarkar & Hazgui, 2020; Guo, 2016). Consistent with institutional complexity theory, by representing the logics as more than simply compatible but complementary, and certainly not contradictory, both the Big Four and the mid-tier auditors have created *hybrid identities* predicated on a *hybrid logic*. This hybrid logic could be termed ‘commercial professionalism’ as it emphasises how commercial incentives sustain the profession and indeed even promote audit quality.

As further evidence of this identity representation, or what Guo (2016) calls ‘identity experimentation’, some mid-tier participants argued that their firms will produce better audit quality than the Big Four for the smaller to medium size companies because they will *prioritise* the client more.

> *In a medium sized audit practice partner involvement is probably a lot more than in the Big Four* (AP11)

One executive explained how their firm uses this argument as a marketing pitch in their tender proposals. This is how they differentiate themselves from the Big Four - they would apply themselves more, be more available to the client and get to know their client better than the Big Four. They deliver a more personalised audit service.

> *We take on a new client that is, for {our firm} is a significant client, when perhaps for the Big Four it was just another client. Whereas for us it’s a huge client. We put our resources on it and we go the extra mile and… I think the quality sometimes is better. {We give} that appreciation, but not to the detriment of standing your ground when needed* (AP10)

This is likely an extension and strategic embracing of the perception that mid-tier firms are more embedded in local context, have a different culture to the Big Four and have developed all of this from their roots with entrepreneurial owner-managed businesses (Ramirez, 2009).

5.2.5 Specific competitive strategies

The smaller mid-tier auditors are understandably more apprehensive about the costs and the risks of competing with the Big Four for listed companies. Justifying (1) scaling up staff resources through hiring professionals and (2) committing senior staff time to present a competitive proposal, without first having secured the appointment and its associated fee revenue, was described by AP11 as a *“chicken before the egg problem”*. The larger mid-tier firms, notably BDO, Grant Thornton and Mazars, possessing greater resources than their smaller peers, expressed distinct strategies on how they intended to secure appointment. This provided further insight into how these practitioners understand and legitimize commercialism and further establishes our argument for how mid-tier firms are responding to the ‘versatile expert’ identity of their competition.

The most common strategy expressed by the mid-tier executives to secure appointments was to recognise the bias of audit committees towards the Big Four and focus on the production of a *more* competitive and *higher* quality tender proposal, but nonetheless a proposal that demonstrated superior *devotion* to the client.

> *You tend to customise it {the proposal} to the client that you are tendering for… and one of our processes has been to consider who are the previous auditors, how long have they been there for and what issues have come up etc., to try and get that understanding… we have also tried to reach out to potential clients, to get an*

> *understanding about them, and their situation with their auditors etc. before we go into the tendering process. A significant amount of work goes into the actual proposal document. I think it is going to become more a part of the job going forward… if I was sitting on an audit committee and thinking about appointing new auditors, I certainly would want to know that my future auditors know my business well enough... and they demonstrate enough experience and understanding of my business.* (AP12)

The mid-tier firms intend on representing themselves as more devoted and providing a more attentive, personalised service. However, the MDP model of the Big Four and the perception that such diversity of expertise is important to the client, was not lost on the mid-tier participants.

> *{We are} pulling in more experts in different departments to be part of a pitch. But it all depends on the complexity of the client and the size of the client. It's a cost that we absorb {and} part of the investment into a new client.* (AP10)

In addition to marketing themselves as a more devoted and personalised service, the larger mid-tier auditors understood the advantage of scale and diversity of expertise. The market has been long conditioned to appreciate these attributes (Suddaby & Greenwood, 2005). Some of the mid-tier auditors suggested the possibility of following the merger strategy that has been so successful for the Big Four (Carson et al., 2012; Gerokos & Syverson, 2015) and was most notably a part of the "cultural shift" towards commercialism that arose in the late 1970s (Carnegie & Napier, 2010; Hanlon, 1996; Picard et al., 2014). A larger firm would allow a mid-tier firm to mimic the versatile expertise identity of the Big Four and perhaps, in time, would also create the fee premiums the Big Four firms appear to attract (Carson et al., 2012).

In 2018 the South African practices of Grant Thornton and BDO entered such a merger. Following the June 2017 MAFR ruling by the IRBA, BDO began a series of corporate events with the express intention of competing with the Big Four. In 2018 it acquired three regional Grant Thornton offices, combining the two largest mid-tier firms in the country. In 2019 it expanded its capacity in non-audit services, to provide "financial services audit and technology services" to large, listed clients. This demonstrates its intention to grow itself as an MDP. In 2020 a fourth regional practice was acquired from Grant Thornton. This post-merger BDO now has 1,400 staff nationally including 131 partners – rivalling the size of the Big 4 firms (BDO, 2020). The senior leadership of BDO described their strategy as follows:

> *We are now in our strongest position ever and can provide the market with a significant alternative to the competition… This gives our clients a credible and expert team to perform their auditing, while allowing us to operate competitively.* (CEO of BDO South Africa, as cited in BDO, 2020, p. 6)

> *Our merged entity… will be in a strong position to take advantage of the changing audit environment. Our investment in technical skills and technology will contribute to enhancing our audit quality and our advisory capabilities.* (Managing partner of BDO South Africa, as cited in BDO, 2018, p. 1)

Consistent with the rhetoric from the interviews, BDO intertwines the two logics and implies that the bigger firm is a better firm for their clients. The merger here is described in public statements to the market as serving both the firm's commercial interest and the public interest, without any apparent acknowledgement that the two logics may be in opposition. The discourse from the BDO and Grant Thornton participants made it clear that they intend to compete with the Big Four, but with the personalised 'more devoted' service of a smaller firm.

6. Concluding discussion

In response to a specific gap in our understanding of how mid-tier auditors resolve and institutionalise the logics of professionalism and commercialism, this paper has examined the rhetoric of mid-tier audit executives as they respond to a regulatory change presenting a specific market opportunity. Guo (2016) and others (e.g., Dermarkar & Hazgui, 2020; Malsch & Gendron, 2013; Suddaby & Greenwood, 2005) show how the Big Four have successfully and strategically re-invented their identity concomitant with their institutional work. We show that likewise, mid-tier auditors are highly commercially orientated and look for opportunities to both distinguish themselves from the Big Four and, when possible, copy them. The merger strategy of the two larger mid-tier firms in South Africa (BDO and Grant Thornton), illustrates the intention to copy the Big Four business model and hopefully convince the market of their comparable abilities. Coram and Robinson (2017), through examining auditor remuneration policies at mid-tier firms, provide further evidence of this intention to mimic the Big Four and 'catch up' in the construction of their business model.

Again, similar to the Big Four, we show that mid-tier auditors not only legitimise commercialism in their practice but argue that their commercial incentive *enhances* their ability to deliver audit quality and *promotes* the sustainability of the profession. Various legitimation techniques are deployed to make this case. The mid-tier auditors thus appear no different to the Big Four in their rhetoric that the business side of auditing drives innovation and quality (Power, 2003; Suddaby & Greenwood, 2005). However, while the market views them with suspicion, the mid-tier firms need an identity that separates and positions themselves competitively against the Big Four. The 'growth through merger' and 'MDP model' strategy that the Big Four have pursued so successfully, which allowed them to reinvent themselves as 'versatile experts' (Dermarkar & Hazgui, 2020; Guo, 2016), is difficult to replicate. Rather, we find that the mid-tier firms are shaping their own identity as *'more devoted experts'* who can provide a more personalised service than the Big Four, especially to the clients that (they argue) are not large enough to be prioritised by the Big Four. This identity is marketed rhetorically through 'heroic' representations of battling adversity and bias and leverages their historic role as the auditor of small business and entrepreneurs. As the mid-tiers attempt to move from the periphery of the market to its centre, this 'identity experimentation' (Guo, 2016) is necessary for them to have a consistent and coherent "collective identity defining story" (Wry, Lounsbury, & Glynn, 2011, p. 450) and establish social legitimacy with their potential client base (Greenwood et al., 2011).

Rather than the creation of a new logic to replace the dominant logics (Greenwood et al., 2011; Thornton & Ocasio, 1999) organisations may combine and reconfigure them to create hybrid organizational forms, hybrid practices, hybrid identities and hybrid logics (Binder, 2007; Glynn & Lounsbury, 2005; Greenwood et al., 2011). This is what we find in our study – auditors "re-cast the relationality between logics" (Smets & Jarzabkowski, 2013, p. 1301). Given the pressures faced by auditors from competition and legitimacy challenges, they skilfully tailor a hybrid logic using legitimation rhetoric which portrays commercialism and professionalism as highly complementary. From this hybrid logic auditors shape their identities. Mid-tiers auditors are not unlike their Big Four counterparts in their strategic balancing of the two logics as complementary to the degree that they are fused and inseparable in their rhetoric – what we argue should be considered a hybridization that has allowed this forging of hybrid identities (Binder, 2007; Glynn & Lounsbury, 2005; Greenwood et al., 2011). Although the identity forged is somewhat different to the Big Four, it is intended to achieve the same objective namely, to gain a competitive advantage, alleviate societal criticism of conflicted interests and resolve the 'cognitive dissonance' created by the institutional complexity.

Social constructivism theory explains how this is established through legitimation rhetoric grounded in language. The mid-tier executives demonstrated this through a "canopy of legitimations", a common set of vocabularies regarding practice, which no doubt reflects how the hybrid logic of 'commercial professionalism' is articulated within their firms. Berger and Luckmann (1966, p. 72) describe this as "reciprocal typifications", socially constructed for distinct purposes through the habit and dialogue of influential human actors within a distinct social context. Such research provides insight into agency, intentionality and effort in institutional work (Guo, 2016; Smets & Jarzabkowski, 2013) and specifically how auditors maintain, and indeed grow, their status and role within society (Cooper & Robson, 2006; Malsch & Gendron, 2013). Being thus informed, legislators and regulators are better equipped to exercise democratic control over the profession and promulgate regulations which better align auditors' interests with the public interest.

This reshaping of hybrid identities is thus strategic but may also have subconscious influences which need further understanding. As regulators, driven by concerns over conflicts of interest and corporate failures, seek to implement major structural reform in the profession (House of Commons, 2019; The Economist, 2018a, 2018b; van Brenk et al., 2020), we envisage this rhetoric of 'commercial professionalism' and reinvented identity to become more prevalent. Auditors' rationale is all the more convincing given the lack of specificity and the ambiguity (Goodrick & Salancik, 1996; Greenwood et al., 2011) surrounding the concepts at the heart of what it means to be a professional i.e., 'audit quality', 'independence', 'integrity' etc.

Future research avenues are worth pursuing. Firstly, these findings are, of course, preliminary, and more research is required to understand the legitimation and identity-shaping of mid-tier auditors as they seek to grow their market share. It is clear that there is a growing desire from regulators to bring them out of the periphery of the market and by doing so, reduce the dominance of the Big Four (Bleibtreu & Stefani, 2018; Carson et al., 2012; Horton et al., 2018). An understanding of auditor identity representation provides researchers with a meaningful analytical tool for examining institutional change in the profession. Secondly, this paper blended a focus on organisational-level versus individual-level identity, examining the rhetoric of national executives who are responsible for firm-level strategic responses to the regulation. These results should be investigated at a more individual level with practitioners, including those not at the 'partner' level, perhaps audit team members whose responsibilities are more 'at the coal face' of audit work and client engagement. Furthermore, the perspective of the client or the regulator, as outside actors to this identity and logics hybridization phenomenon, was not explored. Such investigation can test the strategic efficacy of such identities, which as our data indicates are constructed to at least in part manage the perceptions of decision-makers outside of the profession (audit committees for example). And finally, researchers must continue to contribute to the de-reification of the logics and the evolution of identities within the profession by exploring their presence in other social, political or regulatory audit contexts. These logics are clearly social constructions, grounded in human history, behaviour and discourse (Berger & Luckmann, 1966), and may differ in jurisdictions where the 'rules of the game' are different or changing (Spence et al., 2017).

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