

Institutional logics and institutional work: radical reform of the Chinese public accounting profession in the 1990s

Reform of the Chinese public accounting profession

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Abstract

Purpose – This paper examines radical reform of the Chinese public accounting profession in the 1990s. In particular, the paper seeks to provide a more nuanced understanding of the sources, responses and processes of this radical institutional change that effectively paved the way for development of the Chinese accounting profession into the twenty-first century.

Design/methodology/approach – The empirical data that inform this study come from both archival materials (mostly in Chinese) and in-depth interviews. These data are analysed and interpreted from a neo-institutionalist perspective, drawing, in particular, on the concept of institutional logics and the concept of institutional work.

Findings – A state logic initially guided the development of the Chinese accounting profession but was seriously challenged in the 1990s following a series of high profile financial scandals. The findings reveal a shift to a new professional logic, which was made possible through multiple forms of institutional works instigated by various state actors.

Originality/value – Research into the radical reform of the Chinese public accounting profession in the 1990s was mostly quantitative in nature, focussing mainly on one reform programme, i.e. the disaffiliation of the accounting firms from their sponsoring agencies. This paper adopts a qualitative approach and is aimed at providing a deeper and more nuanced understanding of the institutional change process within its political and economic contexts.

Keywords Chinese public accounting profession, Institutional change, Institutional logics, Institutional work

Paper type Research paper

1. Introduction

Many scholars have argued that professions are not only key mechanisms for change they are also primary targets of institutional change and transformation (Scott, 2008; Muzio *et al.*, 2013). That is, professions shape, as well as are shaped by, changes in their social, political, economic, technological and regulatory environments (Muzio *et al.*, 2013; Hinings *et al.*, 1999). There is a significant body of literature on the accounting profession, particularly on professionalization, in the Anglo-American world that sheds light on the profound changes experienced by the profession in recent decades (see, for example, Arnold, 2005; Brock and Powell, 2005; Suddaby and Greenwood, 2005; Cooper and Robson, 2006; Greenwood and Suddaby, 2006; Suddaby *et al.*, 2007; Malsch and Gendron, 2013). There has also been a shift in research focus from professional associations to accounting firms, particularly when large accounting firms in western countries began to transform into global professional service firms and professional networks in the 1990s (Aharoni, 1999; Arnold, 2005; Brock and Powell, 2005). Less attention, however, has been paid to the radical reforms of public accounting firms

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in China during the same period. These reforms brought about major changes in China's accounting professional landscape and laid the foundation for its future development. It is the aim of this paper to explore the reasons for, as well as the process of, this radical institutional change.

The Chinese public accounting profession first emerged in 1918. However, following the rise to power of the Communist Party of China in 1949 and the socialist transformation in the mid-1950s, CPA firms gradually disappeared and the Certified Public Accountant (CPA) system [1] was brought to an end. The profession, however, re-emerged in the early 1980s following the end of the Cultural Revolution and the rise of Deng Xiaoping. With the adoption of the Open Door policy, the important role played by CPAs and CPA firms (or public accounting firms) was once again affirmed by the Chinese state (Hao, 1999; Yee, 2009). At the time, no international accounting firms were operating in China though a few of them were allowed to set up representative office. Chinese CPA firms could only be established with the backing of government agencies or government-related units such as universities (for example, those that were then under the direct jurisdiction of the Ministry of Finance). This resulted in a unique structural set-up where all accounting firms were affiliated to, or operated under the auspices of, "sponsoring" government agents – an arrangement known as *gua kao* [2]. Under this arrangement, the "sponsoring" government agents not only owned the accounting firms, they could also influence, or even control, the operating policies of the firms (Yang *et al.*, 2001). Chinese public accounting firms were thus state-owned and state-operated – unsurprising given they were established and organised under a socialist regime. While this relationship provided much needed support and backing for the Chinese accounting firms at a time when the profession was re-emerging, it seriously undermined the professionalism and professional independence of both CPAs and CPA firms.

In the last two decades of the twentieth century, the Chinese accounting profession experienced rapid development, legitimised by supporting legal and regulatory framework and the formation of its own professional association, the Chinese Institute of Certified Public Accountants (CICPA) [3]. However, to keep up with the rapid economic growth of the country [4], the capacity of the public accounting profession was pushed to the limit, and a number of fundamental problems began to surface. According to Tang (1999), when the profession re-emerged in the 1980s, there was no standardised set of criteria for CPA licensing. As a result, there were great disparities in the level of professional standards across the country, and the professional competence of the Chinese CPAs had much to be desired. Furthermore, many who joined the profession at the time were retired government officials. They were recruited "for the purpose of obtaining business using their old connections" (Tang, 1999, p. 4). These historical factors, coupled with the *gua kao* arrangement, had ultimately impacted on the overall quality of the profession, manifested not only in terms of low levels of professionalism and a general lack of risk awareness on the part of the CPAs but also in unfair competition amongst public accounting firms. All in all, these problems heightened the need for radical reform of the Chinese public accounting profession in the 1990s. Research into the reforms has focused particularly on structural reform of accounting firms (referred to by some researchers as the "disaffiliation programme") from 1997 to 1998. This structural reform sought to disaffiliate all accounting firms from government or government-sponsored agencies, transforming them into partnerships or limited liability firms. Research to date has mostly been quantitative, measuring the outcome of the disaffiliation programme to ascertain whether it improved auditor independence (see, for example, Yang *et al.*, 2001; Gul *et al.*, 2009), but few studies examine how and why such radical changes came about, who were the actors involved, and what actions were taken to bring about institutional change.

In recent years, researchers, utilising a neo-institutionalist perspective, have begun to pay more attention to radical institutional changes and, in particular, to understanding the sources, responses, phases and processes of such changes (Dacin *et al.*, 2002; Lounsbury,

2002; Townley, 2002; Zilber, 2002). Indeed, a number of studies examine radical institutional changes within the accounting profession in a western context (Greenwood *et al.*, 2002; Greenwood and Suddaby, 2006; Lander *et al.*, 2013; Canning and O'Dwyer, 2016) using, amongst others, the notions of institutional entrepreneur, institutional work and institutional logics. This study contributes by extending this research to examine the Chinese experience. More specifically, it mobilises both the concepts of institutional logics and institutional work to offer a more nuanced understanding of the radical institutional changes undergone by the Chinese public accounting profession during the 1990s. It goes beyond the scope of existing (quantitative) research – which largely focuses on one aspect of the radical reforms, i.e. the disaffiliation programme – by providing a deeper investigation into the various major reform measures. In terms of understanding institutional changes in the Chinese context, very few studies have used the concepts of institutional logics and/or institutional work. To date, only two such studies have been identified, with Dai *et al.* (2017) using the concept of institutional logics and Chiwamit *et al.* (2014) using the concept of institutional work. Both these works, however, focus on management accounting practices within the field of Chinese state-owned enterprises. By extending the investigation to look at the organisational field of public accounting profession, this study adds further insights into how the two concepts can be usefully used to understand radical institutional changes in China.

The concept of institutional logics focuses on the macro-dynamics of organisational fields (Lawrence *et al.*, 2011) and looks at beliefs that shape and guide the behaviour of individual and collective actors. It is particularly useful in understanding the rationality that guided the development of the Chinese public accounting profession during the period of investigation. The concept of institutional work, on the other hand, is rooted in agency, but also combines insights from practice theory (Lawrence and Suddaby, 2006). It highlights the conscious and practical actions of individuals and collective actors aimed at *creating, maintaining and disrupting* institutions (Lawrence and Suddaby, 2006). In terms of examining the various reform measures, the concept of institutional work is useful in unpacking the activities of, as well as the efforts made by, various actors in pushing through the reform process. On their own, each of these concepts can provide useful perspectives through which to examine radical institutional changes. However, when combined, they have the potential to take into account how institutional changes within a broader institutional context (i.e. the macro level) can impact (and are possibly reinforced by) practices at the field level (i.e. the micro level).

During the 1990s, two key competing institutional logics – state logic and professional logic – are identified as providing the organising principles behind the field of the public accounting profession in China. State logic is broadly guided by the belief that accounting firms should be state-owned, with their role being meeting the needs of the State's *dui wai kai fang* (opening to the outside) and the *dui nei gao huo* (revitalising the economy) policy. Professional logic, on the other hand, accords broadly with the belief that the accounting profession should exhibit a high level of professionalism and that accounting firms should be independent and disaffiliated from sponsoring government agencies. The analysis in this study highlights that state logic was once dominant but later challenged by the (new) professional logic. The paper explores the reasons behind the shifting of logics and how it was accomplished. Through utilizing the concept of institutional works, the paper also examines the actions undertaken by various state actors as they sought to shape and influence the process of institutional change.

In contrast to prior work on the structural reform that is mostly quantitative in nature, this study adopts a qualitative research design. A number of primary source documents, including early internal publications of the CICPA, written records of political and accounting discourses and various legislative documents, were identified and located. A limited number of interviews were also conducted with individuals who have thorough knowledge of the affairs of the Chinese public accounting profession during the 1990s. These interviewees offer

valuable insights into the institutional background of the public accounting profession during the period of investigation and further help to substantiate the findings of the paper. So, while previous work (for example [Gul et al., 2009](#); [Hua and Zhou, 2018](#)) provides only scant details on the structural reform of the accounting firms – a process that began in 1997 – the data obtained from this study have allowed institutional works to be traced back to as early as 1992, thus providing a more holistic understanding of the institutional change process in the 1990s.

The remainder of the paper is organised as follows. The next section provides a review of the institutional changes within the organisational field of professional accounting as investigated under a western context using the concepts of institutional logics and institutional work. This is then followed by the research method section that explains the data collection and analysis. The remaining sections discuss the Chinese public accounting profession under state logic; then follow by the radical reforms that helped shape the new logic and reinforced the shift in logic. The final two sections of the paper provide a discussion of the key insights gained from the investigation as well as a conclusion that points to possibilities for future research.

2. The organisational field of professional accounting: understanding institutional changes in the western context

The ways in which the process of institutional change unfolds can vary significantly, and investigations of institutional changes have opened up important questions: What are the sources of institutional change? Who are the drivers of change? These questions also point to a theoretical puzzle within the tenet of institutional theory, known as the paradox of embedded agency – if the norms and beliefs of actors are institutionally determined and truly embedded in an institutional field, how are they able to champion change and to “imagine, desire or realise alternative ways of doing things” ([Hardy and Maguire, 2008](#), p. 198, see also [Holm, 1995](#); [Seo and Creed, 2002](#))?

Two dominant approaches to institutional theory that address this notion of embedded agency have evolved and were successfully used by accounting researchers to study accounting change in recent years. Both these approaches adopt an ontological position that sees agency as “intentional yet conditioned by extant institutional structures” ([Modell, 2015](#), p. 778). The first approach centres on the concept of institutional logics (see, for example, [Guerreiro et al., 2012](#); [Ezzamel et al., 2012](#); [Busco et al., 2017](#); [Kaufman and Covaleski, 2019](#)) and the second on the concept of institutional work (see, for example, [Goretzki et al., 2013](#); [Hayne and Free, 2014](#)).

2.1 Institutional logics

The concept of institutional logics focuses on the macro-dynamics of organisational fields ([Lawrence et al., 2011](#)). According to [Thornton et al. \(2012, p. 2\)](#), institutional logics are defined as “the socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values, and beliefs, by which individuals and organisations provide meaning to their daily activity, organise time and space, and reproduce their lives and experiences”. In simple terms, logics provide frames of reference that guide the behaviour of actors. According to [Friedland and Alford \(1991\)](#), society can be conceptualised as an inter-institutional system of societal sectors, each with its own distinct logic that conditions the behaviour of individuals and organisations. This notion of an inter-institutional system “allows sources of heterogeneity and agency to be theorised and to be observed from the contradictions between the logics of different institutional orders” ([Thornton and Ocasio, 2008](#), p. 104). It defies rational choice theory as it can be argued that there is not just one source of rationality ([Thornton and Ocasio, 2008](#); [Thornton et al., 2012](#)); instead, rationality

varies with each institutional order and hence, in a society, there may be multiple sources of rationality if individuals and organisations are situated in multiple institutional orders. In the organisational field of professional accounting, for example, accounting firms are said to be situated within the institutional orders of the professions and the market. The former is said to be conditioned by a broadly professional/trustee logic that emphasises professional values, technical expertise and serving the public interest; the latter is influenced broadly by a commercial/economic logic that focuses on increasing profits and serving clients' needs (see [Spence and Carter, 2014](#)).

The co-existence of both professional and commercial logics and the inherent associated institutional tensions has been widely studied in the western context. Most of these studies focus on large (multinational) accounting firms, such as the Big Four (or the then Big Five or Big Six). For example, [Gendron \(2001, 2002\)](#) studies the client acceptance decisions in three Big Six firms in Canada and argues that firms' organisational components are configured in a way that allows a moderate level of tension between the professional and commercial logics. [Gendron \(2002\)](#) argues that while favouring one logic the firms were using the other logic to mitigate and constrain the favoured logic to prevent it from having a disproportionately large impact on decisions. A study by [Spence and Carter \(2014\)](#), directed more specifically at the senior accountants of the Big Four, examines the co-existence of the professional and commercial logics and the tensions and contradictions therein for career advancement. They argue that the legitimacy criteria of professionalism, which is central in the struggle for symbolic power, never disappears. It does, however, mutate and accordingly, the characterisation of the two competing logics should be re-labelled as technical-professional and commercial-professional logics. Nevertheless, their findings indicate that within the Big Four firms, the latter logic remains privileged over the former.

The tensions and/or contradictions at the firm level are also indicative of those at the field level, with large multinational accounting firms taking the lead to transform into multidisciplinary practices (see [Greenwood *et al.*, 2002](#); [Greenwood and Suddaby, 2006](#)). [Suddaby and Greenwood \(2005\)](#), for example, examine a jurisdictional struggle triggered by a Big Five accounting firm when it acquired a law firm to create a multidisciplinary partnership. Both proponents and opponents of this new organisational form sought to secure their positions by the strategic use of persuasive language that exposed the contradictory institutional logics – one based more on professional concerns (a trustee model) and the other based on economic advantages (a model of expertise) – embedded within the legitimacy criteria of professionalism. The radical transformation of the large accounting firms was also studied by [Suddaby *et al.* \(2007\)](#). They observe that through growing in scale and scope, the then Big Five had outgrown the regulatory boundaries in both a geographical as well as a disciplinary sense. Working together with transnational trade organisations – most notably the World Trade Organisation (WTO) – the Big Five were actively promoting a new field logic based on economic rationality that advocates liberalising trade in services. As they increasingly identified with the interests of clients and consumers, the Big Five justified their expansion into new business services as in the best interests of consumers and as serving the public interest at large. According to [Suddaby *et al.* \(2007\)](#), this ideational change – one that holds up economic logics above all other rationales based on professionalism and the regulatory authority of traditional professional associations – saw the erosion of national professional governance and the emergence of a transnational regulatory field in professional services.

The institutional pressures to rationalise service delivery process by replacing the traditional partnership with managed professional businesses have similarly impacted on mid-tier accounting firms. [Lander *et al.* \(2013\)](#) situate their research on shifting institutional logics – from trustee logic to commercial logic – and combine these with [Oliver \(1991\)](#)'s typology of strategic responses to explain how mid-tier accounting firms in the Netherlands deal with the conflicting logics that impact on their identity formation and practice

development. The findings of [Lander et al. \(2013\)](#) suggest that unlike in large multinational accounting firms, the professional logic remains dominant amongst mid-tier firms despite these firms selectively adopting practices that are related to the commercial logic.

Overall, in terms of the organisational field of professional accounting in western countries, the transformation of large multinational accounting firms reflects the shift from the old (professional) logics towards the new (commercial) logics. However, for smaller firms within the field the professional logic remains dominant though elements of the commercial logic are increasingly incorporated in justifying change processes.

2.2 Institutional work

The work of [Lander et al. \(2013\)](#) mentioned above focuses mainly on organisational responses. Organisational fields, however, comprise actors who are guided by different institutional logics and who interact with each other ([Reay and Hinings, 2005](#)). They are also deeply influenced by the particular institutional environment and may have their own agenda for institutional change or preservation. For this reason, and in the face of competing institutional logics, the conscious and practical actions of these actors or collective actors may have significant impact on the outcome of field level change. Rather than studying the responses of organisations within the field, it may be particularly insightful to examine instead the strategic actions of individuals and/or collective actors as they seek to shape and influence processes of institutional change. To this end, the concept of institutional work might be usefully used to further illuminate the dynamics of the field level change. The concept has also been used by accounting researchers to study various aspects of institutional changes relating to the accounting profession.

According to [Lawrence et al. \(2009, p. 6\)](#), “[t]he concept of institutional work is based on a growing awareness of institutions as products of human action and reaction, motivated by both idiosyncratic personal interests and agendas for institutional change or preservation”. By adopting a practice perspective on institutions and combining with agency the concept of institutional work highlights the conscious and practical actions of individuals and collective actors aimed at *creating, maintaining and disrupting* institutions ([Lawrence and Suddaby, 2006; Lawrence et al., 2009](#)) [*emphasis added*]. While these actions may be “highly visible and dramatic”, they can also be “nearly invisible and often mundane” ([Lawrence et al., 2009, p. 1](#)). Recent studies of accounting professional changes have provided examples of both these types of actions. For instance, [Goretzki et al.’s \(2013\)](#) study of the institutionalisation of the new “business partner” role for management accountants within a case firm in Germany shows that the institutional work carried out by the actors and particularly the new CFO was highly visible. The latter was instrumental not only in legitimising the new role but also in reconstructing the role identities for management accountants. According to [Goretzki et al. \(2013\)](#), making these actions visible was important for others (such as the operational managers) within the firm to accept the role change and for the new role to acquire legitimacy. In contrast to [Goretzki et al. \(2013\)](#), [Suddaby et al. \(2015\)](#) focus on the Big Four accounting firms and examine how they made use of the rhetorical space created by social media to expand and reconstruct their domain claims. [Suddaby et al. \(2015\)](#) suggest that it was through “relatively quotidian and mundane micro-level practices” (p. 54), rather than highly visible actions, that social media experts within the Big Four accounting firms reconstituted the domain of accounting expertise.

While an actor-focussed institutional perspective the study of ([Goretzki et al., 2013](#)) may be beneficial in highlighting *why* and *how* actors effect institutional change; many have cautioned against overemphasising the “heroic” dimension of these actors (e.g. [Hardy and Maguire, 2008; Lawrence et al., 2009](#)) and urged for more attention to be paid to the practices of a wider range of actors – some of whom act as entrepreneurs while others play important roles in supporting and facilitating the endeavours of entrepreneurs ([Lawrence and Suddaby,](#)

2006). The study of institutional work is distinct in that it adopts a distributed agency perspective, as Lawrence *et al.* (2011, p. 56) explain below:

Distributed agency invites researchers to explore how individual actors contribute to institutional change, how those contributions combine, how actors respond to one another's efforts and how the accumulation of those contributions leads to a path of institutional change or stability.

In other words, multiple actors operating at multiple levels are said to be involved in the institutional process. They may seek to influence through co-ordinated and unco-ordinated efforts (Lawrence *et al.*, 2011; Empson *et al.*, 2013), with some, for example, seeking to stabilise existing institutions, while others attempt to disrupt and create new institutional arrangements. The process can be complex, dynamic and full of compromises and may also have intended or unintended consequences.

Canning and O'Dwyer (2016) illustrate the fluidity of the process of institutional work in their study on the regulatory change of the accounting profession in Ireland. Their work looks at the efforts made by various individuals in the formation and operation of an independent oversight body, the Irish Auditing and Accounting Supervisory Authority, that effectively brought an end to professional self-regulation. The analysis highlights how the institutional context influences those who engage in institutional work and the interplay between different forms of institutional work over time. Canning and O'Dwyer (2016) are able to unpack some of the categorisations of institutional work (see Lawrence and Suddaby, 2006), and they offer a more dynamic explanation of how multiple forms of institutional work can occur and combine, how they enable and support other forms, how they contradict each other and how they may result in unintended consequences. Although Canning and O'Dwyer (2016) focus on institutional work, they highlight how institutional logics are simultaneously shaping and being shaped by the institutional work enroled by regulatory actors. So, while the notions of institutional work and institutional logics are two distinct approaches to explaining institutional changes, it can be argued that they are inextricably linked (see also, Suddaby *et al.*, 2015). When combined, they have the potential to provide novel insights into radical developments within particular organisational fields.

3. Research method and data sources

This research is qualitative in nature. Its objective is to understand the radical reforms experienced by the Chinese public accounting profession in the 1990s, which laid the foundation for the future development of the profession, enabling it to better serve the State's economic agenda and to integrate with international accounting communities. Because of the historical nature of this research, the data mainly come from archival materials, which are supplemented, to a limited extent, by in-depth interviews.

3.1 Documentary evidence

The empirical data that inform this study come from a mix of primary and secondary archive materials and literature, mainly in Chinese but some also in English. While this research relies heavily on such documentary evidence, it is also triangulated and supplemented – though to a limited extent because of the historical nature of this investigation – by interviews with relevant people who are familiar with the internal affairs of the public accounting profession in the 1990s. According to Yin (2003), the use of multiple sources of evidence serves as a corroboratory tool in developing “converging lines of inquiry” (Yin, 2003, p. 98) thereby strengthening the construct validity and reliability of the evidence. The examination of secondary source data is the first step in reconstructing an objective chronology of events and in uncovering the particular phenomena that are relevant to the reform process of the Chinese public accounting profession in the 1990s.

This is followed by analysis of primary source documents aimed at “explanation building” (Caramanis, 2005, p. 198), as well as providing specific details for the corroboration and augmentation of evidence from other sources (Yin, 2003). For this study, a variety of primary source documents, including internal publications of the professional body (such as the *CPA News*) [5], written records of political and accounting discourses (such as inspection reports, annual reports, working reports and speeches) and legislative documents, were identified and located. Of particular significance, however, is a memoir written by Ding Pingzhun (2001) [6], the former Secretary General of the CICPA, who played a significant role in instigating the structural reform of accounting firms in the 1990s. Ding’s memoir provides important insights into both the internal functioning of the CICPA and the bureaucracy of the Chinese political system.

3.2 Interview evidence

Following an initial review of documentary evidence to establish the chronology of events, two open-ended interviews were conducted in 2003; one in Shanghai and one in Beijing. Both interviewees were practitioners who personally experienced the changes to the public accounting profession since the beginning of the Open Door Policy in the early 1980s. Open-ended interviews are more like “guided conversations” (Yin, 2003, p. 89), with interviewees being asked for “the facts of a matter as well as their opinion about events” (p. 90). Insights gained from these two interviews were used as the basis for future inquiry though it was not until 2007 that further in-depth personal interviews were conducted. In 2007, a total of eight people (three government officials, one regulator, three practitioners and one academic) were interviewed, with one interviewee (government official B) being interviewed twice (see Table A1). A second interview was necessary and justified because of this interviewee’s considerable first-hand knowledge of the development of the public accounting profession as well as its relationship with the State. These semi-structured interviews, mostly of around one to two hours duration, followed a set of specific questions covering the sequence of events extracted from the documentary evidence. The responses from these interviews were then used to corroborate the evidence collected from other sources and, in particular, the primary source data collected during the course of the research investigation. Additional archive data were identified at this stage.

Consistent with Chinese culture, in which *guanxi* (relationship) plays an important role in social behaviour, the interviewees participating in this study were selected based on recommendation, mainly from the interviewees themselves [7]. All interviewees agreed to the interview on the understanding that their identity remains anonymous. Other than being willing to participate in the interview, all the interviewees have to satisfy a key criterion, that is, thorough knowledge of the affairs of the Chinese public accounting profession (particularly during the period from 1981 to 1999), either directly through their involvement in the development of the profession or indirectly through their work activities. This is, in fact, one of the reasons why the number of interviews is small as some of the potential interviewees have retired, and either because of ill health or because of their reluctance to talk to a “stranger” about the past they declined to participate. Furthermore, potential interviewees who have not yet retired often occupy relatively high positions in the government hierarchy and are thus reluctant to participate.

3.3 Data analysis

Each interview was transcribed by a research assistant who is a local Mainland Chinese. The transcripts were reviewed by the author to ensure their accuracy. Relevant quotes were translated by the author with the help of a professional translator. Both the documentary and interview data were analysed by conducting a thematic analysis (Braun and Clarke, 2006).

According to [Braun and Clarke \(2006\)](#), there are two approaches to thematic analysis, namely the inductive approach and the theoretical approach. This study follows the theoretical approach, which is driven by the author's theoretical or analytic interest. Using this analysis, two logics emerged – one being a state logic and the other a professional logic.

Themes that emerged during the data analysis were also matched with the chronology of events. They were initially coded and then combined into overarching themes that match with the key reform measures identified, namely the first cleaning up and rectification campaign, the second cleaning up and rectification campaign and the structural reform of the accounting firms. For example, under the overarching theme of structural reform of accounting firms, data were initially coded under themes such as background, reasons for reform, process and events, problems, resistance and areas of disaffiliation. Through reading and re-reading the data and the literature on institutional works, the author was then able to identify the forms of institutional work that emerged.

4. Chinese public accounting profession under state logic

The demand for the services of CPAs re-emerged in the 1980s following the introduction of foreign investments into China as part of the policy of *dui wai kai fang* (opening to the outside). But it was the policy of *dui nei gao huo* (revitalising the economy) that further propelled the need for public accountants in the 1990s. The basis of mission for the public accounting profession and the role it was to play was outlined in a speech delivered by the then Minister of Finance, [Wang Bingqian \(1989, p. 3\)](#) at the inaugural meeting of the CICPA in 1988:

On the one hand, Chinese CPAs are to provide their services to support the *dui wai kai fang* [opening to the outside] policy. They have been given the important legal duty to conduct capital verification and auditing work, as well as to handle affairs relating to liquidation and bankruptcy. This is a necessary task for improving the investment environment of the country. On the other hand, with the policy of *dui nei gao huo* [revitalising the economy], and the further deepening of economic reforms, they are to face an increasing widening of their scope of services.

Indeed, as claimed by one of the interviewees, the business of CPAs grew and expanded following the reform and opening up of the economy (government official C). This was particularly the case after Deng Xiaoping's inspection tour to South China in 1992 where he affirmed the importance of furthering reform and openness and for which he received strong support ([People's Daily, 1992](#)). As a result of this visit, the pace of economic reforms was pushed to a faster speed, fuelled also by the decision of the state to abandon the practice of a planned commodity economy in favour of a socialist market economy in 1993 ([Communist Party of China, 1993](#)). Following this decision, the securities market experienced rapid development, particularly when the state began to experiment with corporatisation of state-owned enterprises (see, [Communist Party of China, 1993](#)). In the first two years of transitioning into a socialist market economy alone, domestic listed companies in China increased from 53 to 291 ([China Securities Regulatory Commission, 2006](#)). According to [Zhang Youcai \(1992, p. 2\)](#), the then Minister of Finance, this deepening of economic reforms [8], in which enterprises raise funds from the market, would mean an increasing reliance on the function of CPAs:

The organisation of modern enterprises is beginning to evolve into many different forms, like joint ventures, co-operatives, associated enterprises, contractual entities, leasing and joint stock companies, with their capital coming not only from the State, but also raised through various channels and methods. An enterprise's relationship with its stakeholders is beginning to change, and its financial relationships have become even more complex. An enterprise is no longer just a unit under the charge of a government department; it also has to work with all its stakeholders and gain the trust of its investors, lenders and other interested parties . . . A certified public accountant's duties to audit and certify the accounts of businesses are not due only to the individual company or to the particular enterprise concerned but extend also to any relevant parties as well as society as a whole.

Its role in the promotion of a socialist market economy became a new-found source of legitimacy for the public accounting profession. As expressed by one of the interviewees (Academic A):

I think the development of the CPA profession is largely state-directed and government-directed. Therefore, in the early days when there was an absence of demand in the market, it can still be developed mainly due to the needs of reforming the state-owned economy.

In a speech delivered by Wang Jun at a training session in 1994, the then Vice Secretary General of the CICPA discussed the inter-relationship between the development of the national economy and the public accounting profession, arguing that the practice of a socialist market economy and the quickening pace of economic development required increasing effort to be put into developing the accounting profession (Wang, 1995). Wang (1995, p. 13) quoted the words of Zhu Rongji [9], the Vice Premier of the State Council at the time, to convey the importance attached to the profession by the State [10].

China's public accounting profession serves as a foundation for a socialist market economy and concerns the future and fortune of the nation; the development of the profession is a great undertaking of lasting importance.

Zhu's vision for the public accounting profession was commented on by one of the interviewees (practitioner B) as follows:

I feel that there is an enlightened leader with vision in any country. If this vision is right, it will be beneficial to the whole country. For example, Deng Xiaoping, his vision is correct. In terms of accounting, Zhu Rongji's vision is correct, right? Zhu Rongji is very important to our accounting profession. He proposed to set up three national accounting colleges. As Premier, he wants to establish three national accounting colleges to train accountants. I do not think any other country would have a Premier with such emphasis.

Indeed, Zhu was very concerned about the development of the accounting profession and would later play an important role in support of the structural reform of accounting firms.

Looking specifically at the background of public accounting firms in China, when the CPA system was re-established in the early 1980s, all such firms were not only state-owned but state-operated. The *Provisional Regulation Concerning the Establishment of Accounting Consultancy Firms* issued in 1980 first stipulated that public accounting firms were to be approved by the finance departments (or bureaus) at provincial level (Ministry of Finance, 1980, article 6). In addition, the accounting firms were to be operated under the supervision of these departments or bureaux (article 1), placing them firmly under the control of the State. Such requirements were further refined in the *Regulation of the People's Republic of China on Certified Public Accountants (RCPA)*, promulgated in 1986, with article 22 clearly stating that public accounting firms were institutions established with the approval given by the State. Article 26 of the *RCPA* further specifies that:

The Ministry of Finance and the finance departments (bureaux) at the provincial level shall be responsible for supervising the business operations of the accounting firms. The accounting firms shall report periodically to the responsible government agencies on matters such as their business developments, income and expenditure and personnel changes.

Accordingly, public accounting firms could only be established with the backing of government agencies or government-related units under the direct jurisdiction of the Ministry of Finance – an arrangement known as *gua kao*. As Ding (2001, p. 185) explained:

In terms of the structural setup, the public accounting firms were initiated and developed in a macro-economic environment where state and public ownerships were the only ownership modes. Hence, it was the customary way to set up accounting firms. Furthermore, under the historical circumstances

at the time, it was impossible to establish, within a short period of time, a huge number of accounting firms if these firms were not backed up by government administrative departments.

Indeed, state involvement was seen as necessary at the time, as “CPAs did not have sufficient personal assets to bear the full responsibilities and legal liabilities that went with an accounting and auditing practice” (Tang, 1999, p. 2). This kind of arrangement also ensured the financial viability and thus the continued survival of the public accounting firms – especially in the 1980s when the public accounting firms were not necessarily able to generate sufficient revenue from their operations.

Overall, the rationality that guided the development of the public accounting profession at the time and, in particular, as it relates to accounting firms, can be characterised as state logic where it is believed accounting firms should be state owned with their role focussing on serving the economic agenda of the state. Table 1 summarises the key features of this state logic.

5. Radical reforms of the profession – shifting of institutional logics

Evidence suggests that Chinese public accountants were well aware of the problematic structural setup of accounting firms as far back as 1989. The issue of the *gua kao* arrangement was raised in two of the seminars held by the CICPA shortly after its formation. While participants at the seminars believed that public accounting firms needed the *gua kao* arrangement, they also pointed out that interference from the “sponsoring” government agencies in the operations of the accounting firms had resulted in a loss of objectivity, independence and integrity (CICPA, 1989). The situation was made worse when “sponsoring” government agencies misused their power to monopolise CPA work in areas under their control (CICPA, 1989). On the whole, the seminar participants acknowledged that the *gua kao* arrangement had serious shortcomings, but no concrete recommendation was made as to how the dilemma could be resolved. With the deepening of the economic reforms and China’s transformation into a socialist market economy, problems with the *gua kao* arrangement became increasingly apparent. The prevailing state logic that underpinned the development of the accounting profession and, in particular, public accounting firms was repeatedly being questioned. As explained in the interview by government official B, the affiliated relationship between accounting firms and their “sponsoring” government agencies had not only created unfair competition amongst public accounting firms but had also compromised the independence as well as the quality of public accounting firms:

If your sponsoring agent was more powerful, you would have more business. If your sponsoring agent had less power, you would have less business. Not only was this unfair to accounting firms, it could also easily become a source of corruption within the government. Furthermore . . . when there

Characteristic	State logic
Source of identity	Accounting firms as state-owned
Source of legitimacy	Role in promoting a socialist market economy
Source of authority	Government regulations and policies
Basis of mission	To meet the needs arising from the <i>dui wai kai fang</i> (opening to the outside) and the <i>dui nei gao huo</i> (revitalising the economy) policy To carry out the task of social supervision, being the intermediary agent between the state and the SOEs
Basis of attention	Conduct audits and capital verification work
Basis of strategy	Offering services in accordance with state policies and guidelines

Table 1. State logic (categories of characteristics adapted from Thornton and Ocasio, 2008)

was a problem with the audit report, the sponsoring government agency would interfere and mediate to resolve the issue. The issue might then be dropped. Therefore, both quality awareness and risk awareness of the accounting firms is relatively poor.

These issues manifested in a number of high profile financial scandals in the early 1990s involving public accounting firms – for example, the Shenzhen Yuanye scandal (1992), the Great Wall fund raising scandal (1993), the Wangfujing scandal (1993) and the Jianfeng scandal (1993) (see, [Xiao et al., 2000](#); [Ding, 2001](#); [Gul et al., 2009](#)). Negative publicity drew to the attention of some members of the Standing Committee of the National People’s Congress the significant role played by the public accounting profession in the functioning of the economy ([Ding, 2001](#), p. 13) and thereby the importance of a high standard of professionalism. This saw the beginning of a new institutional logic – a professional logic – that gradually took shape and gained acceptance through institutional works instigated by various state actors. Indeed, during the 1990s, multiple forms of institutional works – some occurring simultaneously – can be identified. This highlights what [Lawrence et al. \(2011\)](#) call the distributed agency phenomenon where contributions by a combination of actors accumulate and lead to a path of institutional change.

5.1 Changing normative associations: first cleaning up and rectification campaign, 1993

The creation of institutions is one category of institutional works described by [Lawrence and Suddaby \(2006\)](#). Within this broad category, there are forms of institutional work associated with changing norms or belief systems. Describing them generally as normative works, [Lawrence and Suddaby \(2006\)](#) argue that these types of works rely much on the cultural and moral force embedded within communities of practice. Following the revelation of the infamous Great Wall fundraising scandal in 1993, which implicated the integrity and professionalism of a branch office of a public accounting firm [11], the CICPA began to engage in institutional work aimed at creating institutions through the changing of normative associations. Accounting firms had been founded based upon state logic but with the unintended consequences that CPAs and CPA firms ended up with a poor sense of professional quality and a lack of risk awareness. So while maintaining this logic, the CICPA sought to remake the connections between practices and the moral and cultural foundations by developing an alternative normative perspective, that is, an emphasis on professionalism.

The Great Wall case revealed not only unethical behaviour on the part of auditors but also a lack of quality control and professional competence, particularly amongst the staff of the branch office of a public accounting firm. However, as explained by government official B, this phenomenon was found to be very common across the profession:

In 1992, 1993, the branch office phenomenon was very common. Basically, I have set up a firm, and someone else also wants to do so but he has no capacity, no qualifications or insufficient qualifications. Because there are a lot of conditions required to set up an accounting firm, when he does not have enough qualifications, he can run a branch office under my [firm’s] name. He then comes under the management of my office and operates under my [firm’s] name. He will have to give me a certain percentage of his income. For example, if he earns 1 million yuan, he will give me 300,000, then he can use my license, the name of my firm to do business. This is a relatively common practice.

The seriousness of the Great Wall scandal prompted the CICPA to launch its first *qing li zheng dun* [cleaning up and rectification] campaign in 1993 in the hope of reformulating the normative associations between accounting practices and a moral foundation of professionalism. The concept of *qing li zheng dun* was explained by government official B as follows:

Qing li zheng dun [cleaning up and rectification] is a special Chinese term. China has a strong focus on the system of government administration. For example, if the market has signs of abnormality or

irregularities, the way to regulate the market is through government authority. This is normally called *qing li zheng dun* . . . With regard to the public accounting profession, however, our *qing li zheng dun* did not necessarily mean intervention of the state. If we experienced some abnormalities within the profession, we [CICPA] would deal with the issues specifically by launching a *qing li zheng dun* campaign.

The campaign, targeting all the branch offices of public accounting firms, lasted for over a year and led to the closing down of over 1,000 branch offices (Government Official B). While it was hoped that such institutional work would “clean up” the profession and shift the focus to professionalism, this first campaign only managed to scratch the surface of the deep-seated issues stemming from the *gua kao* arrangement. High profile corporate accounting scandals involving listed Chinese companies continued to make headlines, and it was of great concern to state leaders, such as Zhu Rongji, who had always believed integrity to be the cornerstone of a market economy (CICPA *et al.*, 2002).

5.2 Constructing a new identity: second cleaning up and rectification campaign, 1997

According to Lawrence and Suddaby (2006), the construction of identities is another form of institutional work that is central to creating institutions. In 1997, after receiving instruction from Zhu Rongji to “rectify” the CPA industry (Ding, 2001), the CICPA launched a second national cleaning up and rectification campaign, issuing the *Notice on Cleaning Up and Rectifying the Public Accounting Profession* on 12 August (hereafter referred to as the *Notice*) [12]. The campaign was targeted at CPAs and public accounting firms to ensure through *qing li* [cleaning up] that both public accountants and accounting firms were of a required standard and through *zheng dun* [rectification] that any violation of laws and regulations or of professional standards and practices was brought under discipline (CICPA, 1997). This would serve to construct a new identity for the profession as a whole. The need for the campaign was succinctly expressed in the preface of the *Notice*:

In order to regulate the development of China’s public accounting profession; to raise the certified public accountants’ professional and ethical standards; to promote the deepening of economic reforms; to protect the socialist market economic order; to safeguard the interests of the state, enterprises and the public; and to protect the legitimate rights of certified public accountants . . .

Apart from seeking to raise the level of professional and ethical standards for CPAs, the preface also reinterpreted the role of Chinese CPAs. Under state logic, the role of CPAs and CPA firms was to promote a socialist market economy and to offer services to meet the needs arising from the *dui wai kai fang* [opening to the outside] and the *dui nei gao huo* [revitalising the economy] policy. The preface, however, shifted their mission to the protection of the socialist market economic order, as well as to safeguarding the interests of the state, enterprises and the public. So while state logic remained dominant, the institutional work engaged by the CICPA forced both CPAs and CPA firms to become more professionally oriented and to be more concerned with serving the public interest (which includes that of the state). A new logic based on professionalism thus appeared to be taking shape.

According to the *Notice*, this second cleaning up and rectification campaign was to consist of four stages, spread over a period of nearly two years. From August 1997 to end of that year, public accounting firms were to carry out a self-inspection to identify and to report their own problems, including the proposal of rectification measures. Based on these reports, local CPA institutes were to conduct an industrywide comprehensive inspection within their respective provinces between January and April 1998. In the third stage of the campaign, from May to June of 1998, the CICPA was to randomly select public accounting firms from each province and carry out a comprehensive review of those samples. The campaign was to enter its final stage in the last quarter of 1998, with the summing up of campaign results, the issuing of new

regulations and the re-issuing of new certificates for both CPAs and public accounting firms (CICPA, 1997).

According to the Annual Report of the CICPA, the cleaning up and rectification campaign in 1998 alone resulted in the deregistration of 638 public accounting firms and the revocation of 1,474 illegal branch offices. Furthermore, penalties were imposed on 1,916 firms – some were asked to reorganise within a specified time, some were given warnings and some were suspended from operations. In addition, 4,541 CPAs were *qing li* (cleaned up) because they were “over retirement age, or held other positions, or kept titular titles, or practised in more than one firm, or broke relevant rules and codes” (CICPA, 1998).

5.3 Disrupting institutions: structural reform of the accounting firms, 1997

Prior research suggests that the most direct way for actors to disrupt institutions is to work through the State apparatus to disconnect rewards and sanctions from a set of practices, technologies or rules (Lawrence and Suddaby, 2006; see, for example, Jones, 2001). In the Chinese case, this was made possible with the support of Zhu Rongji when he became the Vice Premier of the State Council in 1991. Zhu was keen to link the national economy with the world economy and believed part of this required development of the public accounting profession so as to follow international practice whereby CPAs and CPA firms had to bear unlimited liability (Ding, 2001). Even as early as 1992, before the beginning of the cleaning up and rectification campaigns, discussion had begun at the State leadership level on the way forward to develop the public accounting profession. At the 192nd premier office meeting in June 1992, a decision was made to regulate the profession through developing the *Law of the People's Republic of China on Certified Public Accountants (CPA law)* (Ding, 2001). In September 1992, a working group was set up to draft the *CPA law* with the then Minister of Finance, Zhang Youca as the Chair and the then CICPA Secretary General, Ding Pingzhun as the key draft person (Ding, 2001, p. 10).

The problematic ownership and management structure of public accounting firms proved to be a major constraint in the drafting process as it was extremely difficult to address issues such as the legal liability of CPAs and the quality of their services without radical changes being made to the *gua kao* arrangement. In drafting the *CPA law*, the working group travelled to a number of western countries and examined legislation relating to the CPA profession from 15 countries and regions (Ding, 2001, p. 10). The proposed requirements in the draft were mainly based on international practice and experiences from the United States, Canada, Japan, Korea, Singapore, Hong Kong and Taiwan, as well as from the then Big Eight accounting firms (Ding, 2001, p. 10). According to Ding (2001, p. 12), the structural setup of the public accounting firms was the subject of intense debates during the drafting of the *CPA law*. While it was agreed that the *gua kao* relationship between government agencies and public accounting firms was not ideal, it was also difficult to accept the alternative of having privately run accounting firms in a country where most organisations were state-owned. The proposed draft of the *CPA law* was eventually submitted to the State Council for review on 3 June 1993, after which it was forwarded (on 10 August) to the National People's Congress (NPC) Legislative Affairs Committee for further consideration. The outcome of this review process was significant. The State Council gave approval for the establishment of public accounting firms by certified public accountants in the form of partnerships. The NPC Legislative Affairs Committee further listed the partnership arrangement as the first provision (Article 23) [13] under chapter IV (requirements relating to public accounting firms) of the *CPA law*, in effect, signifying the partnership form of organisation to be the preferred ownership structure of the future (Ding, 2001, p. 14). Article 23 of the *CPA law* also specified that partners of public accounting firms were to be responsible for their firm's own legal liabilities – thereby no longer had the financial backing of government agencies:

A public accounting firm may be established by certified public accountants in partnership. The obligations of a public accounting firm in partnership shall be borne by the partners with their own property according to the proportion of their respective capital contributions or to their agreement. The partners shall bear joint liabilities as to the obligations of the public accounting firm (Article 23, *CPA law*).

While the final draft of the *CPA law* fell short of abandoning the *gua kao* arrangement, it no longer specified the requirement for public accounting firms to be established with the backing of a “sponsoring” government agent.

The passing of the *CPA law* in October 1993 represented a preliminary, though important, step in addressing the problematic structural set-up of public accounting firms. However, it did not completely disconnect sanctions from the *gua kao* arrangement. Indeed, to disrupt and completely remove such deeply entrenched institutions would be no easy task, particularly as it conflicted with the interests of the state’s own establishments (i.e. the “sponsoring” government agencies).

The need for structural reform to sever the *gua kao* relationship remained a background agenda for the CICPA, and the first breakthrough came in 1995 when the CICPA secured the support of the municipal government of Shenzhen [14]. Shenzhen became the first city to trial the structural reform on public accounting firms. Beginning in the second half of 1995 and continuing through 1996, reform measures were implemented to sever the *gua kao* relationship between some of the accounting firms and the government agencies that originally established them, with the former then reorganised into partnerships or legal entities with limited liability (Beijing Institute of Certified Public Accountants, 1996). In November 1996, launching an attempt to disrupt the *gua kao* arrangement, the CICPA held a national symposium in Shenzhen to promote understanding as well as to encourage further discourse on the idea of structural reform. In effect, the CICPA was using the symposium to engage in another form of institutional work, that is, undermining the core assumptions and beliefs of the *gua kao* arrangement. As can be seen from the inspection report prepared by the Beijing Institute of Certified Public Accountants, Shenzhen’s experience provided valuable insights into both the benefits of the structural reform as well as the difficulties encountered.

Mixed opinions of this radical organisational reform were expressed at the national symposium. In particular, some participants reacted strongly to the perceived “privatisation” of public accounting firms, arguing as follows:

the development of private ownership should not be at the expense of public ownership; that the carving up of the assets of public accounting firms and the proclamation of oneself as a partner were something which the Party as well as the people of China would object to (Ding, 2001, p. 28).

This strong statement reflected not only the tenacity of opponents to structural reform – particularly from some quarters of the (local) government, which had existing interests in the public accounting firms – but also provided a glimpse of the potential difficulties ahead if the CICPA were to implement such a reform on a nationwide basis. Indeed, as explained by government official B, there were underlying reasons for the vehement opposition to the structural reform:

People were thinking then that the CPA industry was trying to pursue privatisation. Privatisation was quite a sensitive word as the perception and the way of thinking was very different at the time. The disaffiliation and the restructuring of the public accounting firms did encounter great resistance. Most of the oppositions came from the government agencies. In the past, the agencies had helped to establish and support the public accounting firms. Now, with the development of the market for the services of CPAs, the public accounting firms were able to generate more income. To sever the ties meant that the government agencies would end up having fewer disposable resources. Take, for example, a public accounting firm that generated income of 20 million yuans. Other than remitting some of that income to the government agency, the firm also had to contribute towards improving

the welfare and benefits of the staff working under the “sponsoring” agency, etc. That was why great resistance to the reform came from all sides, including those from within the industry.

Discord over the structural reform, however, did not deter the Shenzhen municipal government from continuing its reform agenda. On the contrary, the municipal government engaged in further institution work to disconnect its sanction over the *gua kao* arrangement. On 20 April 1997, the municipal government issued the *Implementation Measures for the Structural Reform of Public Accounting Firms in Shenzhen*, stating clearly the goal of restructuring:

... to transform the accounting firms from the existing public ownership mode to partnerships that are to be established by certified public accountants or to accounting firms that has legal person status. This is in order that CPAs can be truly independent, objective and fair.

The above-mentioned implementation measures required all public accounting firms in Shenzhen to complete the structural reform by 31 December 1997 (Shenzhen Municipal Government, 1997). The success experienced in Shenzhen was encouraging and set the example for other provinces to follow – for example, the Hainan province completed similar reform on 30 March 1998 (Ding, 2001, p. 60). Nevertheless, the structural reform continued to encounter significant resistance and remained a formidable task for the CICPA.

In the meantime, the public accounting profession was shaken by a series of high profile economic frauds, in 1997 and 1998, involving accounting firms that provided securities-related services (see Chen *et al.*, 2011). One of the most serious scandals at the time involved a company called Hainan Minyuan Modern Agricultural Development Co. Ltd, which was audited by a well-established accounting firm sponsored by the Ministry of Finance. In its 1996 financial year, the company falsified its profits and capital accumulation fund, hugely exaggerating the figures by RMB5.4 billion and RMB6.57 billion, respectively. The share price of the company increased from RMB2.08 at the beginning of April 1996 to over RMB26 in January 1997, creating an impact of RMB28 billion on the Shenzhen Stock Exchange. Such scandals not only tarnished the reputation of the accounting profession but also had serious implications for the relationship accounting firms had with their “sponsoring” government agencies (Ding, 2001, p. 42). According to one of the interviewees (Regulator A),

The reason for the disaffiliation was because of problems manifested in the securities market. It was found that many accounting firms did not have independence, particular as it involved relations with government agencies. Therefore, at this time, it was necessary to disaffiliate and restructure. The restructuring enabled the accounting firms to be established as an independent partnership or a limited liability, a privately-owned accounting intermediary organization.

The disregard for professionalism and the lack of professional ethics on the part of both CPAs and public accounting firms was largely the result of years of operating under the *gua kao* arrangement. Such was the real issue highlighted by the economic scandals. However, though the solution might lie in severing the *gua kao* relationship, it was also one that the CICPA could not boldly confront without further political support – particularly in view of the objection and resistance coming from “sponsoring” government agencies.

The second breakthrough came towards the end of 1997, with a report written by Zhang Weiguo, who was then the chief accountant of the China Securities Regulatory Commission (CSRC) [15]. Zhang’s report explained, from a securities market perspective, the problem of having state-owned public accounting firms and convincingly argued that, without radical structural reform, the public accounting profession would never be recognised in the international investment community (Ding, 2001, p. 37) – an issue that Zhu Rongji was very concerned about. In effect, Zhang was seeking to disrupt the taken-for-granted *gua kao* relationship by highlighting its risks. Zhang’s report further called for the re-structuring of public accounting firms – by severing the *gua kao* relationship and re-organising the

accounting firms into either partnerships or entities with limited liabilities – beginning with the 105 firms that were licensed to provide securities-related services, then to be followed by a nationwide implementation. According to [Ding \(2001, p. 38\)](#), Zhang’s report received strong support from Zhu Rongji and was pivotal in providing fresh impetus for speeding up the structural reform of public accounting firms. As explained by government official B, support from Zhu Rongji and the State Council was crucial at the time:

The severing of the *gua kao* relationship was only accomplished with the strong support of the State Council. The State Council had a Structural Reform Office then. Our idea of disaffiliation and restructuring was being recognized by them. This gave us the political backup that we needed, as we were worried that people would brand us as trying to engage in privatization. With their support, we were able to complete the disaffiliation process of over 6,800 public accounting firms in two years, that is, 1998 and 1999.

On 28 December 1997, the CSRC and the Ministry of Finance began the process of disrupting the *gua kao* arrangement by conducting the first structural reform meeting with the 105 public accounting firms licensed to carry out securities-related businesses. At the meeting, both the leadership of the CSRC and of the Ministry of Finance openly acknowledged the need for structural reform and, unlike the previous meeting held by the CICPA in November 1996, participants were no longer debating the necessity for reform but rather urging the issuance of guidelines to facilitate its implementation ([Ding, 2001, p. 38](#)). After the meeting, on 31 December 1997, the CSRC and the Ministry of Finance jointly issued the *Provisional Rules on the Issue of Licence to CPAs for Practising Securities and Futures Related Businesses (Provisional Rules)* to disconnect sanctions from the *gua kao* arrangement. It required public accounting firms to be “severed” from their “sponsoring” government agents before they could apply for a licence to provide securities-related services ([Ministry of Finance and CSRC, 1997](#), article 6). A less-demanding licensing criteria was also put in place for public accounting firms that were established by CPAs under the partnership arrangement (article 6 (5)). The *Provisional Rules* thus effectively steered the public accounting firms into supporting the structural reform agenda.

Further works to disconnect sanctions were engaged by the Ministry of Finance and included the issuance of three important Circulars in 1998 – circular numbers 22, 45 and 55. Together these Circulars provided the blueprint for the implementation of the structural reform [16]. Circular no. 22, in particular, required public accounting firms that provide securities-related services to complete their structural reform by the end of 1998 ([Ministry of Finance, 1998a](#)) [17]. It also outlined the four aspects of disaffiliating the relationship between the public accounting firms and their “sponsoring” government agencies. These were the disaffiliation of personnel, finance, business name and business dealings ([Ministry of Finance, 1998a](#)). It was hoped that this restructuring would greatly improve the independence of both CPAs and public accounting firms. The background to each of these requirements was explained by government official B as follows:

Many of the personnel were from the “sponsoring” government agencies. They were allocated to the agencies and then assigned to the public accounting firms. Even the chief administrator of the accounting firm was assigned by the “sponsoring” government agent. The disaffiliation of personnel meant that there would be no more personnel ties between the government agencies and the firms. Neither would there be any administrative overseeing from the “sponsoring” government agencies. The second was to sever all financial ties, so that accounting firms had complete independent financial autonomy. Their finances would no longer be linked to that of the “sponsoring” agencies. The third was to disaffiliate the business name. In the past, one could work out from the name of a public accounting firm as to which government agency it was affiliated to. If you came to China before 1999, you could tell from the name of the accounting firms who their “sponsoring” government agents were, whether it was the university, the Finance Department or the Audit

Department. You could tell right there and then. Therefore, we required the naming of the public accounting firms to be such that people could not tell who the “sponsoring” agents were. The last one was to sever ties in business dealings . . . By business dealings, we meant the government agencies could no longer direct business to the accounting firms. In the past, the government agencies could influence and refer clients. We now specified that government agencies are no longer allowed to do so.

According to the then Secretary General of the CICPA, Ding Pingzhun, who presided over the structural reform, two types of practical problems needed to be resolved. First, industry-wide policy and second, firm specific policy (Ding, 2001). Circular no. 22, which outlined the disaffiliation of personnel, business name and business dealings, could easily be implemented for the industry as a whole. The severing of all financial ties, however, was the most controversial and required individual firms to negotiate with their sponsoring agencies to find a way forward. There were numerous disagreements between government agencies and public accounting firms on how to distribute retained earnings (Tang, 1999). On the one hand, government agencies argued that they had originally funded and established the public accounting firms and should therefore be entitled to most or even all of the retained earnings. On the other hand, however, public accountants argued that they had ultimately created the firms’ wealth, which included the retained earnings (Tang, 1999). To further complicate the debate, a large portion of the retained earnings was, in fact, designated as housing and welfare funds belonging to employees of accounting firms (Tang, 1999). In his memoir, Ding Pingzhun described the huge number of enquiries he received every day, seeking advice on how to resolve these problems. At the same time, he was criticised widely by those in the industry (Ding, 2001). It was a difficult role for Ding and one that he described as analogous to that of “carrying a heavy cross” (Ding, 2001, p. 25).

This dissatisfaction impelled the Ministry of Finance to issue two further Circulars (no. 45 and no. 55) in an effort to speed up and consolidate the structural reform of public accounting firms. Circular no. 45, in particular, provided a very firm mandate on the timelines for the completion of the restructuring process. This Circular reinforced the requirement of Circular no. 22 in demanding that public accounting firms licensed to provide securities-related services must accomplish their structural reform program by the end of 1998 (Ministry of Finance, 1998b, paragraph 1). It then specified the completion timelines for (1) public accounting firms that were affiliated with central government agencies, requiring them to complete the re-structuring in the first quarter of 1999 (paragraph 2) and (2) all other public accounting firms, which were to complete the disaffiliation and restructuring process by 31 December 1999 (paragraph 3). Paragraph 5 of this Circular further imposed the ultimatum that failure to comply with required timelines would result in suspension of the business (Ministry of Finance, 1998b). To facilitate the restructuring and to put an end to the *gua kao* arrangement, Circular no. 55 provided detailed criteria for establishing a public accounting firm with limited liability. Paragraph 2 of this circular specified that limited liability public accounting firms were to be established by CPAs, thus ruling out any past or future *gua kao* relationship between public accounting firms and government agencies.

The structural reform of the public accounting firms was completed by the end of 1999, in accordance with the requirements of Circular no. 45. As was stated in the CICPA 1999a Annual Work Review, the structural reform of the accounting firms was related to the independence and impartiality of the CPA profession and was considered a very important and fundamental task by the State’s leaders (CICPA, 1999a). This radical restructuring, ruthless as it might appear, not only addressed the deep-seated problems within the profession but paved the way for the future development of the public accounting profession.

6. Discussion

A number of insights can be gained from the analysis presented in this paper. First, unlike the situation in western countries in the 1990s whereby the organisational field of professional accounting was facing increasing institutional tensions from the co-existence of both professional and commercial logics, the Chinese accounting profession was working through a transition from a state logic to a professional logic. Indeed, as the analysis reveals, to shift away from the state logic was inconceivable in a society where public ownership was seen as the norm. The analysis highlights the institutional pressures that came from high profile financial scandals, which, in turn, created a new understanding on the part of state actors of the importance of integrity and a high standard of professionalism. Ultimately, these scandals became the driver for institutional change as the urgent need to raise the professional and ethical standards of both CPAs and public accounting firms became apparent. The established *gua kao* arrangement began to be destabilized, and doubts were cast on the dominant state logic. The key feature of the new professional logic lies in the organisation of accounting firms, which changed from state-owned to independent entities disaffiliated from their sponsoring government agencies. The mission of accounting firms was also redefined, with a focus on protecting the socialist market economic order and safeguarding the interests of the state, enterprises as well as the public. Furthermore, demonstration of high level of professional and ethical standards was remade to be the new moral foundation for the profession. The characteristics of this professional logic are summarised in Table 2.

It can be seen that while there are some key differences as compared to state logic (see Table 1), this professional logic, in fact, incorporated elements of state logic, particularly as the legitimacy of the profession is still very much grounded in serving the economic agenda of the State and in acting according to policies and regulations promulgated by the government. This is dissimilar to the professional logic in the West. In a sense, the old dominant (state) logic was never completely displaced but instead incorporated into a new (professional) logic, giving the latter a unique Chinese characteristic. This “Chinese-style” professional logic fits with Zhu’s agenda of developing an accounting profession that not only has a high level of professionalism but also a better chance of achieving recognition in the international investment community.

Second, the shift to a professional logic was made possible through institutional works instigated by a number of state actors (both individual and collective), with the CICPA being seen as the most active but not necessarily the most powerful. As the professional body for CPAs and public accounting firms, the CICPA played an important role as a regulatory agent. In running the cleaning up and rectification campaigns, the CICPA was seeking to create institutions through changing norms and

Characteristic	Professional logic
Source of identity	Accounting firms as independent and disaffiliated from sponsoring government agencies
Source of legitimacy	Role in promoting the deepening of economic reforms CPA law
Source of authority	Government regulations and policies
Basis of mission	Protect the socialist market economic order Safeguard the state, enterprises and public interests
Basis of attention	Demonstrate high level of professional and ethical standards
Basis of strategy	Observe the laws and administrative regulations in the performance of professional activities (Article 6, CPA law)

Table 2. Professional logic (categories of characteristics adapted from Thornton and Ocasio, 2008)

constructing a new “cleaned up” identity for the profession as a whole. According to [Lawrence and Suddaby \(2006\)](#), these normative works are the most “co-operative” form of creating institutions. So as regulator of the profession, the CICPA has the ability to instigate this kind of institutional work; however, its success also depends very much on the co-operation of the communities within the field “to make real the intended new institution” (p. 228), that is, for higher professional standards and risk awareness to become the new norm.

The extant literature often depicts successful instances of institutional work. However, [Lawrence et al. \(2011\)](#) argue that this is only one potential outcome. The analysis in this paper reveals that the first cleaning up and rectification campaign in 1993 was not effective in changing the norms of the public accounting profession as high profile corporate accounting scandals continued to make headlines. It illustrates a case where the attempt to effect institutional change was unsuccessful and, as presented in the paper, this outcome led to further institutional works involving many other actors.

Third, [Canning and O'Dwyer \(2016, p. 4\)](#) argue that there can be “simultaneous occurrence of multiple forms of institutional work”. The second cleaning up and rectification campaign was launched in August 1997 in the midst of efforts to push through the structural reform that would sever the *gua kao* relationship. While the second cleaning up and rectification campaign was completed by the end of 1998, the structural reform, which formally began at the end of 1997, was completed by the end of 1999. The two reform measures overlapped. They also served different purposes, with the former aiming to create institutions (i.e. construct a “cleaned up” identity) and the latter seeking to disrupt the *gua kao* arrangement. The Chinese experience thus illustrates that institutional work does not necessarily happen in a linear fashion, concurring with both [Hayne and Free \(2014\)](#) and [Canning and O'Dwyer \(2016\)](#) that the instigation as well as the process of institutional change can be far more fluid and complex than explicated by [Lawrence and Suddaby \(2006\)](#).

Fourth, the extant literature mostly recognises that the structural reform of the accounting firms began in 1997 (see, for example, [Gul et al., 2009](#); [Hua and Zhou, 2018](#)). However, this study shows that the institutional works for disrupting the *gua kao* arrangement can be traced back to as early as 1992, with the decision made at the 192nd Premier Office meeting to develop the CPA law. The subsequent issuance of the *CPA law* was important; by signifying the partnership form of organisation as the preferred ownership structure of the future, it undermined state logic with its associated core assumptions and beliefs about how public accounting firms should be organised. It served to disrupt the *gua kao* arrangement ([Lawrence and Suddaby, 2006](#)) and affirmed, also, the shift to a professional logic with key features that are akin to those of the west.

Fifth, apart from the CICPA, the institutional works engaged in by other actors such as Ding Pingzhun, Zhang Wei Guo, the CSRC and the Ministry of Finance had all served to accelerate structural reform and to ensure its success. Of particular importance is Zhu Rongji, who appeared to have followed the development of the accounting profession very closely, attached great importance to the profession and had significant influence in the institutional change process. What these actors have in common is that they were all state-level agents able to engage in institutional work because of their position in the field. Their formal authority, their control of resources and their specialist expertise allowed them to instigate works that create and/or disrupt institutions ([Empson et al., 2013](#); [Canning and O'Dwyer, 2016](#)). From a distributed agency perspective, some of these actors acted as entrepreneurs, while others played a supporting and facilitating role. However, they contributed and responded to each other's effort, and together, the accumulation of these contributions led to institutional changes that transformed the Chinese public accounting profession.

7. Conclusion

There have been few studies examining the radical institutional changes to the public accounting profession in the 1990s in China. This paper contributes by providing a deeper as well as nuanced understanding of the sources, responses and processes of the radical reforms that transformed the Chinese public accounting profession. Institutional change is explained within the context of shifting institutional logics, that is, from a state logic to a Chinese-style professional logic. The paper reveals that institutional work mobilised by various state-level actors at different times not only shaped but reinforced the change to the new logic. However, while the changes were driven by state actors, the paper illustrates that the process can still be arduous, full of conflicts and difficult to push through.

In Western countries, the organisational field of professional accounting is increasingly moving away from a professional logic. There is a greater emphasis on commercial logic as a rationale for expanding the “boundary” of large international accounting firms, both in a geographical and disciplinary sense. While the accounting profession in China was shifting from state to professional logic in the 1990s, recent developments in the profession show signs of a similar shift as in the west. Recognising the important role to be played by the accounting profession in supporting the “going out” of Chinese enterprises (i.e. for enterprises to invest overseas), the Chinese government issued a document in 2009 that outlined the State’s plan for the future development of the accounting profession. This document contains proposals that encourage, in particular, large Chinese accounting firms to expand into other service areas (similar to large international accounting firms in western countries) and to follow Chinese enterprises in having a more international approach. This can be argued as consistent with a state-driven commercial logic. Indeed, in recent years, many of the large Chinese accounting firms have managed to enter the world stage either through joining or building their own international accounting network. Research into this development remains limited at this stage, and future research could usefully focus on this trend. The growing importance of the transnational dimension of the professionalisation process has prompted researchers such as [Chua et al. \(2019\)](#) to call for future research on transnational corporatism. Their framework, adapted from [Puxty et al. \(1987\)](#), includes a new set of actors in the form of transnational agencies (although the state remains a larger actor). This kind of framework may be useful in shedding light on recent developments in the Chinese accounting profession.

Finally, there are limitations to this study that need to be highlighted. First, the analysis relies heavily on archival materials. Although they are supplemented by in-depth interviews, the number of interviews is limited though very useful. Second, while the data generally indicate that there was vehement opposition to the structural reform, little is known about the background of the opponents. Although it was suggested that most of the opposition came from local government agencies, as well as from some within the industry, there is little information on who exactly these opponents are or whether they had actively engaged in institutional work that sought to maintain institutions. While their efforts were not successful in resisting the structural reform that abolished the *gua kao* arrangement, it may have been useful to understand the dynamics of the resistance at that time.

Notes

1. Before 1918, Chinese accountants were few in numbers and were not recognised as a professional group. In 1918, however, the Chinese government issued the *Provisional Regulations for Public Accountants*. This was instrumental in bringing into existence, for the first time, the Certified Public Accountant system in China. Not only did the *provisional regulations* signal official recognition of the accounting profession by the State, it also laid down criteria for registration and licensing of accountants (for more detailed background, see [Xu, 1995](#); [Hao, 1999](#); and [Xu and Xu, 2003](#)).

2. *Gua kao* literally means “to be linked and to rely”. It thus implies a very close connection between the public accounting firms and their “sponsoring” government agencies.
3. The Chinese government promulgated a series of regulations and legislations to support and recognise the Chinese accounting profession. Amongst the most important ones are the *Accounting Law* 1985, the *Regulations of the People’s Republic of China on Certified Public Accountants* 1986 and the *CPA law* 1993. It was the promulgation of the *Regulations of the People’s Republic of China on Certified Public Accountants* in July 1986 that granted the Chinese CPAs explicit legal recognition, as well as the authority to form their own professional association, the CICPA. The CICPA was eventually established in November 1988 under the Ministry of Finance. It is a quasi-government body responsible for the regulation of CPAs and CPA firms. For more detailed background information about the Chinese public accounting profession in the 1980s and 1990s, see [Hao \(1999\)](#); [Yee \(2009\)](#); (2012); and [Hua and Zhou \(2018\)](#).
4. According to data from the World Bank, for example, the GDP annual growth rate in China averaged over 12% in the period from 1991 to 1995.
5. The early issues of the *CPA News* were classified by the Chinese public accounting professional body, the CICPA, as an internal document. First issued in May 1989, the *CPA News* constitutes an important primary archive for this study.
6. Ding Pingzhun occupied the position of Deputy Secretary General of the CICPA from July 1993 until he was promoted to the position of Secretary General in December 1995. He remained as Secretary General until January 1999.
7. In studying Chinese social behaviour, [Bond and Hwang \(1987\)](#) provide an illuminating discussion on the strategy of *la guanxi*. This is where an individual who is barely acquainted with a resource allocator “pulls” or “works” the connections (i.e. *la guanxi*) “by asking an intermediary of high social status to introduce the petitioner to the allocator and to solicit a favour from the allocator on his or her behalf” (p. 225).
8. The term, “deepening of economic reforms”, is made up of four Chinese words. The term became a slogan that was commonly understood within civil society, appearing not only in accounting discourses, but also in newspapers such as the *People’s Daily* and the *Economic Daily*.
9. Zhu Rongji became the new Premier of the State Council in 1998. Zhu, who had been serving as the Vice Premier of the State Council since 1991 and as the Governor of the People’s Bank of China between July 1993 and June 1995, was the country’s leading economic reformer.
10. This message had been conveyed to the Chinese public accountants on many other occasions. See, for example, [CICPA \(1999b\)](#); [CICPA et al. \(2002\)](#).
11. The Great Wall fund raising scandal involved illegal fund raising, management embezzlement of raised funds, account fabrication and bribery ([Chen et al., 2011](#)). According to [Xiao et al. \(2000\)](#), three CPAs from the Zhongcheng accounting firm provided an unsubstantiated certificate confirming 0.3 billion yuan capital after just one day’s work. The investigation of this case led to five CPAs being disqualified, as well as the closing down of the accounting firm. Furthermore, the president of the client company received the death penalty and the deputy minister was also jailed for bribery. The president of the People’s Bank of China was also implicated, and his position was terminated.
12. A number of other notices were issued to regulate the whole *qing li zheng dun* (cleaning up and rectification) process. This included a notice, issued by the Ministry of Finance on 19 September 1997, which extended the *qing li zheng dun* campaign to Sino-foreign joint venture accounting firms as well as representative offices of international firms.
13. There was also a second provision (see article 24 of the *CPA law*) that allowed for a public accounting firm to be set up as a legal entity with limited liabilities, provided that it had a registered capital of no less than 300,000 yuans and employed at least five certified public accountants. Based on the two provisions, newly created accounting firms could be in the form of a partnership or a legal entity with limited liability and would no longer require the endorsement of government agencies.

14. Being a prefecture-level city, Shenzhen is ruled by the Guangdong province though it is administered independently in regard to its law and economy. Being one of the special economic zones (SEZs), Shenzhen's economic development was ahead of most parts of the country.
15. The CSRC was established in October 1992. It was an executive arm of the State Council Securities Committee and was given the responsibility of regulating China's securities and futures markets. Following the termination of the State Council Securities Committee and the transferring of its functions to CSRC in 1998, the latter became the sole regulator, supervising the securities and futures markets nationwide.
16. While the Ministry of Finance, and the CICPA for that matter, had issued a number of other circulars in 1998 and 1999 to formulate and clarify the implementation measures for the structural reform, Circulars numbers 22, 45, 55 could be argued to be the cornerstone of the reform measures.
17. This was specifically targeted at the 105 firms who participated in the first structural reform meeting held by the CSRC and the Ministry of Finance in December 1997.

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Table A1.
Interviewee
information

Interviewee	Description of role	Language	Records
Government official A	Played an active and direct role in the development of the CICPA	Mandarin	Taped (2007)
Government official B	Played an active and direct role in the development of the CICPA	Mandarin	Taped (2007)
Government official C	Played an active and direct role in the development of the CICPA	Mandarin	Taped (2007)
Regulator A	Played a key decision-making role in the area of professional accounting	Mandarin	Taped (2007)
Practitioner A	Local partner of one of the “Big Four” international accounting firms	English English and Mandarin	Taped (2003) Taped (2007)
Practitioner B	Local partner of one of the “Big Four” international accounting firms	English Mandarin	Written notes (2003) Taped (2007)
Practitioner C	Director of one of the “Big Four” international accounting firms	Cantonese	Taped (2007)
Academic A	Worked with the CICPA for a number of years	Mandarin	Taped (2007)

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